

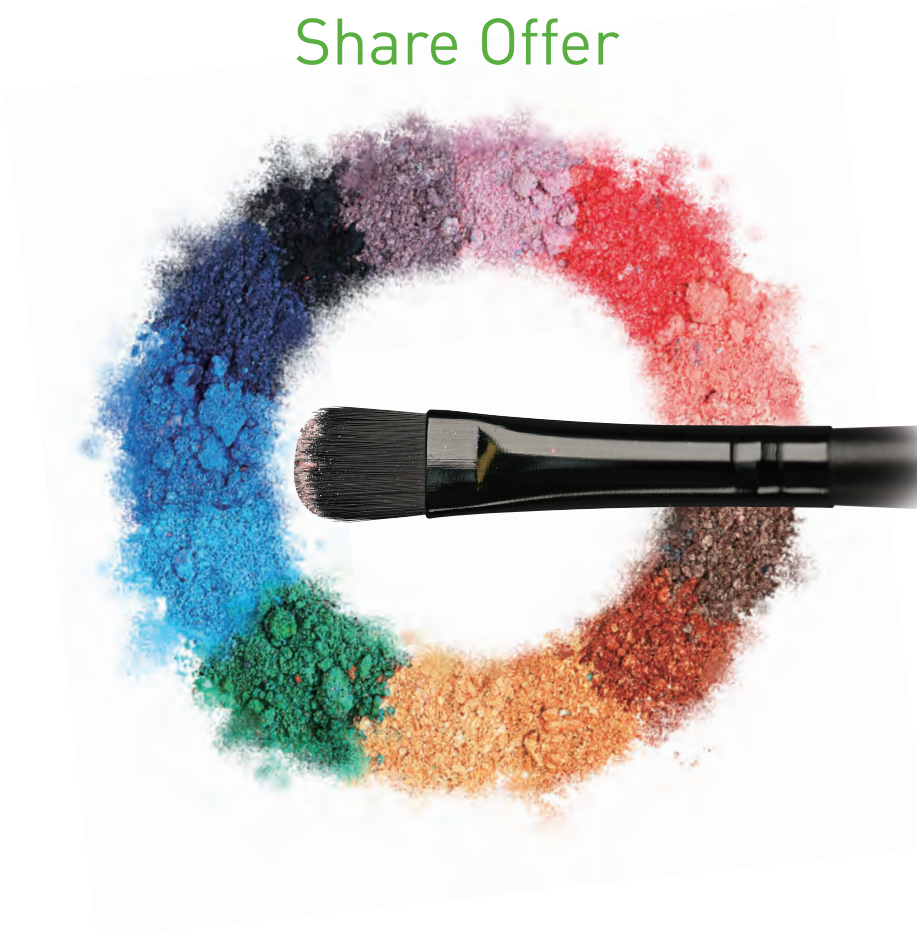


# Takbo Group Holdings Limited

## 德寶集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)  
Stock code: 8436

## Share Offer



Sole Sponsor



Joint Bookrunners and Joint Lead Managers

Co-Manager



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# IMPORTANT

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



## Takbo Group Holdings Limited

德寶集團控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

### LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Number of Offer Shares	: 100,000,000 Shares
Number of Public Offer Shares	: 10,000,000 Shares (subject to reallocation)
Number of Placing Shares	: 90,000,000 Shares (subject to reallocation)
Offer Price	: Not more than HK\$0.69 per Offer Share (payable in full in Hong Kong dollars on application plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% and subject to refund) and expected to be not less than HK\$0.65 per Offer Share
Nominal value	: HK\$0.01 per Share
Stock code	: 8436

#### Sole Sponsor



#### Joint Bookrunners and Joint Lead Managers



#### Co-Manager



Pacific Foundation Securities Limited

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

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

The Offer Price is expected to be determined by agreement between us and SCS (for itself and on behalf of the Underwriters) on the Price Determination Date, which is scheduled on or about Wednesday, 18 October 2017, or such later date as may be agreed between our Company and SCS (for itself and on behalf of the Underwriters). The Offer Price will be not more than HK\$0.69 per Offer Share and is currently expected to be not less than HK\$0.65 per Offer Share unless otherwise announced. SCS may, with our consent, reduce the indicative Offer Price range and/or the number of Offer Shares stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. If this occurs, notice of reduction of the indicative Offer Price range and/or the number of Offer Shares will be published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.takbogroup.com](http://www.takbogroup.com).

If, for any reason, the Offer Price is not agreed between us and SCS (for itself and on behalf of the Underwriters) on or before Wednesday, 25 October 2017 (or such other time as our Company and SCS may agree), the Share Offer will not proceed and will lapse.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States of America and may not be offered, sold, pledged, or transferred within the United States of America, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. securities law.

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

Prospective investors of the Share Offer should note that the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement are subject to termination by SCS (for itself and on behalf of the Public Offer Underwriters) upon occurrence of any of the events set out in "Underwriting — Underwriting arrangements and expenses — The Public Offer — Grounds for termination" at any time before 8:00 a.m. (Hong Kong time) on the Listing Date. Should SCS (for itself and on behalf of the Public Offer Underwriters) terminate the Public Offer Underwriting Agreement, the Share Offer will not proceed and will lapse. Further details of these termination provisions are set out in "Underwriting". It is important that prospective investors refer to that section for further details.

13 October 2017

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## CHARACTERISTICS OF GEM

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GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange.

Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcement and Gazette newspaper. Accordingly, prospective investors should note that they need to have access to the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) in order to obtain up-to-date information on GEM-listed issuers.

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## EXPECTED TIMETABLE

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If there is any change in the following expected timetable, we will issue an announcement on the website of our Company at [www.takbogroup.com](http://www.takbogroup.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

2017

Public Offer commences and **WHITE** and **YELLOW**

Application Forms available from..... 9: 00 a.m. on  
Friday, 13 October

Application lists for Public Offer open <sup>(Note 2)</sup> ..... 11: 45 a.m. on  
Wednesday, 18 October

Latest time for lodging **WHITE** and **YELLOW** Application Forms..... 12: 00 noon on  
Wednesday, 18 October

Latest time to give **electronic application**

**instructions** to HKSCC <sup>(Note 3)</sup> ..... 12: 00 noon on  
Wednesday, 18 October

Application lists for Public Offer close <sup>(Note 2)</sup> ..... 12: 00 noon on  
Wednesday, 18 October

Expected Price Determination Date on or about ..... Wednesday, 18 October

Announcement of the final Offer Price, indication of the levels of interest in the Placing, the levels of applications of the Public Offer and the basis of allotment to be published in our Company’s website at [www.takbogroup.com](http://www.takbogroup.com) <sup>(Note 11)</sup> and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) on or before..... Thursday, 26 October

Announcement of results of allocations in the Public Offer (with successful applicants’ identification document numbers, where appropriate) to be available through a variety of channels including our Company’s website at [www.takbogroup.com](http://www.takbogroup.com) <sup>(Note 11)</sup> and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) (for further details, please see “How to Apply for the Public Offer Shares — 10. Publication of results”) on or before..... Thursday, 26 October

Results of allocations in the Public Offer will be available at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a “search by ID/business registration number” function on ..... Thursday, 26 October

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## EXPECTED TIMETABLE

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2017

Despatch/collection of refund cheques in respect of wholly or partially unsuccessful applications and wholly or partially successful applications in case the final Offer Price is less than the maximum Offer Price paid for the applications pursuant to the Public Offer on or before <sup>(Notes 5 to 9)</sup> . . . . . Thursday, 26 October

Despatch/collection of share certificates or deposit of share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Public Offer on or before <sup>(Notes 5 to 8)</sup> . . . . . Thursday, 26 October

Dealings in Shares on GEM expected to commence at 9:00 a.m. on . . . . . Friday, 27 October

*Notes:*

1. All times and dates refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Share Offer, including its conditions, are set out in “Structure and Conditions of the Share Offer”.
2. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 18 October 2017, the application lists will not open on that day. For further details, please see “How to Apply for the Public Offer Shares — 9. Effect of bad weather on the opening of the application lists”. If the application lists do not open and close on Wednesday, 18 October 2017, the dates mentioned in this section may be affected.
3. Applicants who apply for the Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to Apply for the Public Offer Shares — 5. Applying by giving **electronic application instructions** to HKSCC via CCASS”.
4. The Price Determination Date is expected to be on or about Wednesday, 18 October 2017. If, for any reason, the Offer Price is not agreed on or before Wednesday, 25 October 2017 between our Company and SCS (for itself and on behalf of the Underwriters), the Share Offer will not proceed and will lapse accordingly.
5. Share certificates for the Public Offer Shares are expected to be issued on or before Thursday, 26 October 2017 but will only become valid certificates of title at 8:00 a.m. on Friday, 27 October 2017 provided that (a) the Share Offer has become unconditional in all respects; and (b) none of the Underwriting Agreements has been terminated in accordance with its terms.
6. Applicants for 1,000,000 Public Offer Shares or more on **WHITE** Application Form(s) may collect their refund cheques (where relevant) and/or share certificates (where relevant) personally from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited from 9:00 a.m. to 1:00 p.m. on Thursday, 26 October 2017 or any other day as announced by us as the date of despatch of share certificates/refund cheques.

Individuals who are eligible for personal collection must not authorise any other person(s) to make collection on their behalf. Corporate applicants which are eligible for personal collection must attend by their authorised representative(s) bearing a letter of authorisation from such corporation(s) stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar.

7. Applicants for 1,000,000 Public Offer Shares or more on **YELLOW** Application Forms may collect their refund cheques, if any, in person but may not collect their share certificates personally which will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participants’ stock accounts, as appropriated. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

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## EXPECTED TIMETABLE

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8. Uncollected share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. For further information, applicants should refer to "How to Apply for the Public Offer Shares — 13. Despatch/collection of share certificates and refund monies".
9. Refund cheques will be despatched in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the maximum Offer Price of HK\$0.69 per Offer Share. Notwithstanding that the Offer Price may be less than the maximum Offer Price of HK\$0.69 per Offer Share, applicants must pay the maximum Offer Price of HK\$0.69 per Offer Share at the time of application, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, but will be refunded the surplus application monies, without interest, as provided in "How to Apply for the Public Offer Shares".
10. Share certificates will only become valid certificates of title provided that the Share Offer has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of their share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.
11. None of our Company's website or any of the information contained in our Company's website forms part of this prospectus.

For further details of the structure and conditions of the Share Offer, you should refer to "Structure and Conditions of the Share Offer".

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### IMPORTANT NOTICE TO INVESTORS

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

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

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## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in “Risk Factors”. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this summary are defined in “Definitions” and “Glossary”.*

### OVERVIEW

#### Our Group’s business activities

We principally (i) design, develop, manufacture and sell beauty products; and (ii) design, develop and sell beauty bags. Our Directors believe that we are a well-established beauty products manufacturer in the PRC as we have successfully operated such business for approximately 14 years. According to the F&S Report, we ranked fifth in the beauty products manufacturing market in terms of revenue in the PRC in 2016 (the market share of the top five players in the PRC in 2016 was approximately 4% in total).

#### Business model

Our beauty products, comprising colour cosmetics, toiletries and fragrances are manufactured on an OEM or ODM basis. Our beauty products are typically sold to retailers and brand owners overseas. Our ODM business leverages on our design and research and development capabilities to provide “one-stop service” to our customers in terms of design, development and production of quality and tailor-made products. We conduct our production of beauty products in the Cosbe Facility and source packaging materials and components from external manufacturers.

We outsource the manufacturing of beauty bags to external manufacturers while we focus on our core design and development competencies. We also provide production management services in respect of our sale of beauty bags. A majority of our beauty bags are sold to customers under their own brands.

During the Track Record Period, we have also sold beauty products and beauty bags under our own brands, namely “Pink Viva”, “Secret Lace” and “Gorgeous Girl Forever”, to one of our top five customers, namely, Customer B (U.S.), which is a globally renowned chain superstore originated in the U.S.

The following table sets out the revenue of our respective businesses by product category for the Track Record Period:

	Year ended 31 December				Four months ended 30 April			
	2015		2016		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)							
<b>Beauty products</b>								
Colour cosmetics	85,423	50.0	86,783	52.6	7,984	31.4	9,264	38.6
Fragrances	10,192	6.0	6,804	4.1	2,235	8.8	2,331	9.7
Toiletries	11,786	6.9	22,086	13.4	2,224	8.8	2,094	8.7
<b>Sub-total for beauty products</b>	<b>107,401</b>	<b>62.9</b>	<b>115,673</b>	<b>70.1</b>	<b>12,443</b>	<b>49.0</b>	<b>13,689</b>	<b>57.0</b>
<b>Beauty bags (Note)</b>	<b>63,406</b>	<b>37.1</b>	<b>49,425</b>	<b>29.9</b>	<b>12,954</b>	<b>51.0</b>	<b>10,341</b>	<b>43.0</b>
<b>Total</b>	<b>170,807</b>	<b>100.0</b>	<b>165,098</b>	<b>100.0</b>	<b>25,397</b>	<b>100.0</b>	<b>24,030</b>	<b>100.0</b>

*Note:* Our beauty bags are categorised as non-seasonal standalone items.

## SUMMARY

The following table sets out the revenue generated from the sale of our beauty products by mode of operation, brand and product type for the Track Record Period:

	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i>
<b>By mode of operation</b>				
ODM	30,073	50,746	—	1,322
OEM	<u>77,328</u>	<u>64,927</u>	<u>12,443</u>	<u>12,367</u>
<b>By brand</b>				
Own brands	13,044	13,480	—	—
Customers' brands	<u>94,357</u>	<u>102,193</u>	<u>12,443</u>	<u>13,689</u>
<b>By product type</b>				
Non-seasonal standalone beauty products	36,515	26,842	9,619	12,367
Seasonal standalone beauty products	110	—	—	—
Gift sets (Note 1)	<u>70,776</u>	<u>88,831</u>	<u>2,824</u>	<u>1,322</u>

Notes:

- 1 Gift sets represent seasonal beauty products gift sets.

The following table sets out our gross profit and gross profit margin by product category, mode of operation, brand and product type for the Track Record Period:

	Year ended 31 December				Four months ended 30 April			
	2015		2016		2016		2017	
	<b>Gross profit</b>	<b>Gross profit margin</b>	<b>Gross profit</b>	<b>Gross profit margin</b>	<b>Gross profit</b>	<b>Gross profit margin</b>	<b>Gross profit</b>	<b>Gross profit margin</b>
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	(Unaudited)							
<b>By product category</b>								
<b>Beauty products</b>								
Colour cosmetics	30,137	35.3	33,778	38.9	3,420	42.8	4,269	46.1
Fragrances	1,926	18.9	1,478	21.7	521	23.3	636	27.3
Toiletries	<u>2,064</u>	<u>17.5</u>	<u>6,656</u>	<u>30.1</u>	<u>753</u>	<u>33.9</u>	<u>799</u>	<u>38.2</u>
<b>Total for beauty products</b>	<u>34,127</u>	<u>31.8</u>	<u>41,912</u>	<u>36.2</u>	<u>4,694</u>	<u>37.7</u>	<u>5,704</u>	<u>41.7</u>
<b>Beauty bags</b>	<u>17,097</u>	<u>27.0</u>	<u>18,488</u>	<u>37.4</u>	<u>4,778</u>	<u>36.9</u>	<u>3,504</u>	<u>33.9</u>
<b>By mode of operation (Note 1)</b>								
ODM	10,391	34.6	19,751	38.9	—	—	609	46.1
OEM	<u>23,736</u>	<u>30.7</u>	<u>22,160</u>	<u>34.1</u>	<u>4,694</u>	<u>37.7</u>	<u>5,095</u>	<u>41.2</u>
<b>By brand (Note 1)</b>								
Own brands	4,475	34.3	5,756	42.7	—	—	—	—
Customers' brands	<u>29,652</u>	<u>31.4</u>	<u>36,155</u>	<u>35.4</u>	<u>4,694</u>	<u>37.7</u>	<u>5,704</u>	<u>41.7</u>
<b>By product type (Note 1)</b>								
Non-seasonal standalone beauty products	14,006	38.4	13,340	49.7	3,794	39.4	5,299	42.8
Seasonal standalone beauty products	39	35.5	—	—	—	—	—	—
Gift sets (Note 2)	<u>20,082</u>	<u>28.4</u>	<u>28,572</u>	<u>32.2</u>	<u>900</u>	<u>31.9</u>	<u>405</u>	<u>30.6</u>

Notes:

1. This only comprises beauty products.
2. Gift sets represent seasonal beauty products gift sets.

### Products

The range of beauty products offered by our Group can be categorised as (i) colour cosmetics; (ii) toiletries; and (iii) fragrances, which are principally sold to customers under their own brands or our own brands. The target end-users of our products are mostly teenagers (such as high school students) and adults, but we have also sold to our customers beauty products manufactured for children of aged 3 and above during the Track Record Period. Our beauty products are principally sold in seasonal gift sets comprising two or more items, or otherwise as seasonal standalone

## SUMMARY

products, for sale during holiday and festive seasons. To a lesser extent, our beauty products are sold as non-seasonal standalone items for everyday use. Beauty products we sold during the Track Record Period included lip gloss, eye shadow, blush, shower gels, body lotions and perfumes. We also design and sell different types of beauty bags including tote bags, packaging bags, cosmetics bag set, cosmetics clutch and pouches.

The following table sets out our range of unit selling price by product category for the Track Record Period:

	Range of unit selling price											
	Year ended 31 December						Four months ended 30 April					
	2015			2016			2016			2017		
	Low	Median	High	Low	Median	High	Low	Median	High	Low	Median	High
HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	
<b>Beauty products</b>												
Colour cosmetics	0.4	14.7	194.7	1.1	37.0	96.9	1.4	6.8	57.4	1.4	10.1	199.3
Fragrances	5.1	11.3	17.8	8.3	10.7	30.0	8.3	10.2	12.9	2.3	10.7	20.1
Toiletries	0.5	15.6	35.7	0.1	15.1	36.8	0.1	15.2	15.2	0.8	2.1	15.9
<b>Beauty bags</b>	1.7	16.0	173.6	1.6	13.1	81.9	1.6	12.8	76.3	0.5	32.6	110.1

The following table sets out our average selling price by product category, mode of operation and product type for the Track Record Period:

	Average selling price				
	Year ended 31 December		Four months ended 30 April		
	2015	2016	2016	2017	
	HK\$	HK\$	HK\$	HK\$	
<b>By product category</b>					
<b>Beauty products</b>					
Colour cosmetics		10.2	18.0	6.2	10.1
Fragrances		11.2	11.7	10.2	10.3
Toiletries		10.6	4.8	2.4	2.0
<b>Beauty bags</b>		10.6	10.1	7.9	13.0
<b>By mode of operation (Note 1)</b>					
ODM		15.3	43.5	—	70.0
OEM		9.1	7.3	5.1	5.7
<b>By product type (Note 1)</b>					
Standalone beauty products (Note 2)		6.1	4.0	4.3	5.7
Gift sets (Note 3)		16.1	27.0	13.0	70.0

Notes:

- This only comprises beauty products.
- Standalone beauty products comprise seasonal and non-seasonal standalone beauty products.
- Gift sets represent seasonal beauty products gift sets.

The following table sets out our quarterly sales volume by product category for the two years ended 31 December 2016 and sales volume by product category for the four months ended 30 April 2016 and 2017:

	Sales volume											
	Year ended 31 December										Four months ended 30 April	
	2015					2016					2016	2017
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Units	Units
Units '000	Units '000	Units '000	Units '000	Units '000	Units '000	Units '000	Units '000	Units '000	Units '000	Units '000	Units '000	
<b>Beauty products</b>												
Colour cosmetics	1,600	1,271	4,677	849	8,397	1,174	429	2,331	879	4,813	1,281	921
Fragrances	160	167	261	323	911	220	141	—	222	583	220	227
Toiletries	41	88	710	275	1,113	647	1,310	1,654	975	4,586	937	1,031
<b>Total for beauty products</b>	1,801	1,526	5,648	1,447	10,421	2,041	1,880	3,985	2,076	9,982	2,438	2,179
<b>Beauty bags</b>	1,113	3,196	1,122	552	5,983	1,280	1,969	1,536	128	4,913	1,649	793

## SUMMARY

The following table sets out the sales volume of our beauty products by product type and mode of operation for the Track Record Period:

	Sales volume			
	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	<i>Units '000</i>	<i>Units '000</i>	<i>Units '000</i>	<i>Units '000</i>
<b>By product type</b>				
Standalone beauty products ( <i>Note 1</i> )	6,019	6,689	2,221	2,160
Gift sets ( <i>Note 2</i> )	4,402	3,293	217	19
<b>By mode of operation</b>				
ODM	1,964	1,167	—	19
OEM	8,457	8,815	2,438	2,160

Notes:

1. Standalone beauty products comprise seasonal and non-seasonal standalone beauty products.
2. Gift sets represent seasonal beauty products gift sets.

### Production facility

During the Track Record Period, our beauty products production lines were located at the Cosbe Facility in Shantou, the PRC, which we have rented from Baoma, a connected person of our Company. The Cosbe Facility commenced operations in 2003 and occupies a total gross floor area of approximately 6,000 sq.m. with 14 and 12 production lines for mixing and filling of beauty products, respectively, as at the Latest Practicable Date. As at the Latest Practicable Date, the Cosbe Facility has obtained ISO 9001 and GMPC certifications. We are in the course of setting up an additional production facility in Shantou, the PRC, namely the New Cosbe Facility, which is expected to be equipped with 20 and 19 production lines for mixing and filling of beauty products, respectively.

The following table sets forth the estimated production capacity, actual production volume and utilisation rates for each product category for each of the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017:

For the year ended 31 December 2015:

Category	A	B	C	D	E	F	G	H	Utilisation rate					
									A/G	B/G	C/H	D/H	E/H	F/H
	Actual monthly production volume		Actual quarterly production volume				Estimated monthly production capacity	Estimated quarterly production capacity	Monthly average in 2015	Peak season in 2015	By quarter in 2015			
	Monthly average in 2015	Peak season in 2015	Q1	Q2	Q3	Q4					Q1	Q2	Q3	Q4
	(Tonne)	(Tonne)	(Tonne)	(Tonne)	(Tonne)	(Tonne)	(Tonne)	(Tonne)	%	%	%	%	%	%
Colour cosmetics (Wax-based formula)	2.8	13.6	0.1	14.1	16.1	3.1	9.6	28.8	29.2	141.7	0.3	49.0	55.9	10.8
Colour cosmetics (Powder-based formula)	6.9	24.0	1.5	52.8	23.9	4.3	15.6	46.8	44.2	153.8	3.2	112.8	51.1	9.2
Toiletries (Liquid-type formula)	42.2	157.4	—	199.3	225.3	81.4	100.0	300.0	42.2	157.4	—	66.4	75.1	27.1
Toiletries (Emulsion-type formula)	11.5	50.1	—	9.9	89.0	39.7	48.0	144.0	24.0	104.4	—	6.9	61.8	27.6
Fragrances	5.6	19.6	—	38.6	17.6	11.0	22.5	67.5	24.9	87.1	—	57.2	26.1	16.3

For the year ended 31 December 2016:

Category	A	B	C	D	E	F	G	H	Utilisation rate					
									A/G	B/G	C/H	D/H	E/H	F/H
	Actual monthly production volume		Actual quarterly production volume				Estimated monthly production capacity	Estimated quarterly production capacity	Monthly average in 2016	Peak season in 2016	By quarter in 2016			
	Monthly average in 2016	Peak season in 2016	Q1	Q2	Q3	Q4					Q1	Q2	Q3	Q4
	(Tonne)	(Tonne)	(Tonne)	(Tonne)	(Tonne)	(Tonne)	(Tonne)	(Tonne)	%	%	%	%	%	%
Colour cosmetics (Wax-based formula)	2.1	6.7	0.8	14.1	9.5	1.2	9.6	28.8	21.9	69.8	2.8	49.0	33.0	4.2
Colour cosmetics (Powder-based formula)	7.8	26.1	10.0	36.9	34.9	11.4	15.6	46.8	50.0	167.3	21.4	78.8	74.6	24.4
Toiletries (Liquid-type formula)	38.4	116.1	31.3	197.7	154.6	77.5	100.0	300.0	38.4	116.1	10.4	65.9	51.5	25.8
Toiletries (Emulsion-type formula)	8.2	26.2	9.6	29.0	40.6	19.8	48.0	144.0	17.1	54.6	6.7	20.1	28.2	13.8
Fragrances	7.1	14.3	15.5	27.1	24.0	18.3	22.5	67.5	31.6	63.6	23.0	40.1	35.6	27.1

## SUMMARY

For the four months ended 30 April 2016 and 2017:

Category	Actual monthly production volume			Utilisation rate	
	A	B	C	A/C	B/C
	Monthly average for the four months ended 30 April 2016 (Tonne)	Monthly average for the four months ended 30 April 2017 (Tonne)	Estimated monthly production capacity (Tonne)	Monthly average for the four months ended 30 April 2016 %	Monthly average for the four months ended 30 April 2017 %
Colour cosmetics (Wax-based formula)	1.6	0.6	9.6	16.7	6.3
Colour cosmetics (Powder-based formula)	4.7	9.4	15.6	30.1	60.3
Toiletries (Liquid-type formula)	14.9	11.1	100.0	14.9	11.1
Toiletries (Emulsion-type formula)	2.7	1.2	48.0	5.6	2.5
Fragrances	5.7	6.7	22.5	25.3	29.8

Please refer to “Business — Our production facility” for details.

### Customers

Our customers mainly include retailers, beauty product brand owners and trading companies. For the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, our sales to retailer and non-retailer customers amounted to approximately HK\$102.7 million, HK\$103.6 million, HK\$13.3 million and HK\$16.4 million and approximately HK\$68.1 million, HK\$61.5 million, HK\$12.1 million and HK\$7.6 million, respectively. For the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, we had 33, 26, 19 and 17 customers, respectively, 22 of which were repeat customers that have placed purchase orders with us in at least either two of the three financial years ending 31 December 2017. All of our customers are Independent Third Parties. For the two years ended 31 December 2016 and the four months ended 30 April 2017, sales to our top five customers accounted for approximately 78.6%, 76.8% and 84.3% of our revenue, respectively. In the corresponding years, sales to our largest customer accounted for approximately 25.1%, 22.3% and 28.3% of our revenue, respectively. Despite such customer concentration, our Directors consider that we are not reliant on any single customer because we have a range of customers (comprising retailers and non-retailers) during the Track Record Period. Furthermore, given non-seasonal standalone beauty products target repeat end-customers and the sales thereof are generally recurring in nature, as part of our business strategies and future plans, we plan to diversify our customer base by expanding our product portfolio and customer base through developing and producing more non-seasonal standalone items for everyday use. Our Directors believe this strategy will (i) enable us to attract more beauty products brand owner customers and our sales would also be less subject to seasonality; (ii) enable us to generate a more stable and recurring source of income for our Group; and (iii) allow us to enlarge our exposure to the larger beauty products retail markets in the U.S. and elsewhere. Please refer to “Future Plans and Use of Proceeds — Business strategies and future plans” for details.

During the Track Record Period, over 78% of our revenue was derived from sales to customers in the U.S. The following table sets out the breakdown of our revenue categorised by geographical locations of our customers for the Track Record Period:

	Year ended 31 December				Four months ended 30 April			
	2015		2016		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)							
U.S.	145,939	85.4	145,507	88.1	20,451	80.5	18,951	78.9
PRC	6,291	3.7	6,047	3.7	1,085	4.3	1,802	7.5
UAE	10,529	6.2	3,377	2.0	1,644	6.5	3,009	12.5
United Kingdom	5,283	3.1	5,066	3.1	1,130	4.4	199	0.8
Other countries (Note)	2,765	1.6	5,101	3.1	1,087	4.3	69	0.3
	<u>170,807</u>	<u>100.0</u>	<u>165,098</u>	<u>100.0</u>	<u>25,397</u>	<u>100.0</u>	<u>24,030</u>	<u>100.0</u>

Note: As far as the two years ended 31 December 2016 are concerned, other countries mainly include Germany, Canada, Sri Lanka and Fiji. As far as the four months ended 30 April 2016 and 2017 are concerned, other countries comprise Germany and Fiji.

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## SUMMARY

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### Suppliers

The principal raw materials we use for beauty products production include chemicals such as surfactants, emulsifiers, stabilisers, oils, waxes, colour pigments, fragrances and extracts, and packaging materials such as labels, caps, bottles, cases, boxes and beauty bags. We also source components such as beauty tools, make-up brushes and nail separators for inclusion in our seasonal beauty products gift sets. All of our beauty bags are produced by external manufacturers. Substantially all of our suppliers during the Track Record Period are located in the PRC, while the remaining suppliers are located in Canada, Hong Kong and Vietnam. For the Track Record Period, purchases from our five largest suppliers amounted to approximately 40.6%, 32.9%, and 53.0%, respectively of our total purchases costs.

During the Track Record Period, two of our top five suppliers are connected persons of our Company and supplied our Group with beauty bags. For the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, the total purchase costs of beauty bags amounted to approximately HK\$42.5 million, HK\$31.4 million, HK\$7.5 million and HK\$7.1 million, representing approximately 44.4%, 34.0%, 47.2% and 49.1% of our total purchase costs, respectively. Purchase of beauty bags from the two connected suppliers amounted to approximately HK\$15.9 million, HK\$13.3 million and HK\$4.5 million, representing approximately 16.6%, 14.4% and 30.7% of our total purchase costs, for the Track Record Period, respectively. Baoma, a connected person of our Company, was our largest supplier during the Track Record Period, and accounted for approximately 13.7%, 14.4% and 30.7% of our total purchase costs, respectively. Please refer to “Connected Transactions — Non-exempt continuing connected transactions” in relation to our purchases from Baoma. Save for the beauty bags sourced from connected persons, all of our raw materials and supplies are sourced from Independent Third Parties. Further information on our connected suppliers is set out in “Business — Raw materials and supplies — Our top five suppliers”.

### PRICING

We generally adopt a cost plus pricing approach but will also take into account our customers’ budget when determining pricing. Our customers often provide us with their suggested retail price and budget. We will then price our products based on factors such as the quantity ordered, raw material price, buffer for foreign exchange risk, production costs and transportation costs (if any). During the Track Record Period, we did not provide any sales incentives to our customers.

### SALES AND MARKETING

Our sales and marketing efforts have focused on the provision of competitive prices, reliable and timely delivery, and quality products and services. We have established a long term relationship with our major customers and our new customers may be referred to us by our existing customers. We therefore focus on manufacturing and/or selling quality assured products to maintain our reputation in the industry.

Every year, we will generally provide proposals on our beauty products to our customers. An order will be awarded to the selected design/proposal by our customer. As our beauty products sold during the Track Record Period are mainly seasonal gift sets and standalone items targeted for holiday and festive seasons, they are typically one-off products and orders are generally not recurring in nature. The type and number of products purchased by our customers vary from year to year depending on, among others, the marketing plan and budgets of our customers of the relevant year. Therefore, our financial performance may fluctuate from year to year depending on the mix of products in our customers’ purchase orders.

Going forward, we will place our management’s sales focus on beauty products, particularly non-seasonal standalone beauty products, and to a lesser extent on beauty bags where it can complement our sale of beauty products.

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## SUMMARY

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### COMPETITION

As stated in “Industry Overview”, the competition in the beauty product manufacturing market in the PRC is highly fragmented and competitive. No player dominates the market in the beauty product manufacturing market. Different beauty product manufacturers compete on quality, price, design, production capability and ability to provide value-added services. Whilst our Group ranked fifth in the beauty products manufacturing market by revenue in the PRC in 2016, the total market share of the top five players in 2016 was approximately 4% in total.

### COMPETITIVE STRENGTHS

We believe the following are our competitive strengths that have set us apart from our competitors:

- Stable business relationships with our top five customers during the Track Record Period
- Extensive product range
- Design and development capabilities
- Quality control system
- Experienced and loyal management

Details of our competitive strengths are set out in “Business — Competitive strengths”.

### BUSINESS STRATEGIES AND FUTURE PLANS

Our goal is to strengthen our position as a beauty products manufacturer and solutions provider of beauty bags to the extent that it can complement our Group’s manufacture of beauty products, and leverage on our competitive advantages to expand our operation scale and increase our profit. We plan to achieve this goal by:

- Increasing our production capabilities and capacities
- Expanding our Hong Kong headquarters to cope with the expansion of our operations
- Conducting promotional and marketing activities such as participating in local and global beauty exhibitions to improve our branding and exposure to customers

Details of our business strategies and future plans are set out in “Future Plans and Use of Proceeds — Business strategies and future plans”.

### MAJOR RISK FACTORS

Our Directors believe that there are certain risks involved in our operations. Many of these risks are beyond our control and can be categorised into: (i) risks relating to our business; (ii) risks relation to conducting business in the PRC; and (iii) risks relating to the Share Offer. We believe the following are some of the major risks that may have a material adverse effect on us:

- Substantial amount of our revenue is derived from our top five customers. Any decrease or loss of business with our customers, or if there is a change in their creditworthiness, our business, financial condition and results of operations would be materially and adversely affected
- We are exposed to risks in the exchange rate fluctuations
- We may not be able to implement our expansion plan and business strategies effectively and we may not be successful in capturing future business opportunities
- Our business is susceptible to seasonal fluctuations and our results of operations may be adversely affected if this risk is not effectively managed
- Our customers make purchases from us on an order by order basis, which exposes us to potential volatility in our revenue
- We face risks associated with the marketing and sales of our products to our overseas customers and our ability to maintain profitability and achieve business growth would depend on how we effectively manage these risks

## SUMMARY

### SUMMARY OF FINANCIAL PERFORMANCE

The following table sets out a summary of our combined financial information for the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, which should be read together with the combined financial information in the Accountant's Report as set out in Appendix I to this prospectus, together with the accompanying notes, which have been prepared in accordance with HKFRSs.

#### Key income statement information

	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000 (Unaudited)	HK\$'000
Revenue	170,807	165,098	25,397	24,030
Gross profit	51,224	60,400	9,472	9,208
Operating profit/(loss)	16,071	17,273	(384)	(9,362)
Profit/(loss) before income tax	15,812	17,130	(436)	(9,379)
Profit/(loss) for the year/period attributable to owners of our Company	12,883	13,660	(444)	(9,258)
<i>Non-HKFRSs information</i>				
Profit/(loss) for the year/period attributable to owners of our Company (excluding Listing expenses)	12,883	16,077	(444)	(290)

Our total revenue was approximately HK\$170.8 million, HK\$165.1 million, HK\$25.4 million and HK\$24.0 million for the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, respectively. The decrease was mainly attributable to the decrease in revenue from the sale of beauty bags from approximately HK\$63.4 million for the year ended 31 December 2015 to approximately HK\$49.4 million for the year ended 31 December 2016; and from approximately HK\$13.0 million for the four months ended 30 April 2016 to approximately HK\$10.3 million for the four months ended 30 April 2017 primarily, as a result of the shifting of management's sales focus to beauty products which our Group has our own production facilities, while such strategy did not result in instant corresponding increase in revenue from sales of beauty products as our Group requires time to solicit purchase orders from existing and new customers and develop the market. We recorded loss attributable to owners of our Company for the four months ended 30 April 2017, which was mainly attributable to the Listing expenses incurred during the period. Excluding the Listing expenses, our Group improved from loss of approximately HK\$0.4 million for the four months ended 30 April 2016 to loss of approximately HK\$0.3 million for the four months ended 30 April 2017. Such losses were mainly attributable to the seasonality effect of our Group's business.

#### Summary of financial position

	As at 31 December		As at 30 April	As at 31 August
	2015	2016	2017	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Unaudited)
Total non-current assets	6,418	6,906	11,215	12,231
Total current assets	121,094	141,053	68,204	111,700
Total non-current liabilities	403	403	393	393
Total current liabilities	58,171	66,257	16,592	51,693
Net assets	68,938	81,299	62,434	71,845

#### Summary of cash flow items

	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000 (Unaudited)	HK\$'000
Operating profit/(loss) before working capital changes	17,977	18,553	(195)	(9,485)
Net cash generated from/(used in) operating activities	28,006	20,781	13,935	(8,520)
Net cash (used in)/generated from investing activities	(1,742)	(2,115)	(319)	10,667
Net cash (used in)/generated from financing activities	(32,529)	19,931	(1,196)	(11,338)
Net (decrease)/increase in cash and cash equivalent	(6,265)	38,597	12,420	(9,191)



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## SUMMARY

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The net cash outflows from operating activities for the four months ended 30 April 2017 of approximately HK\$8.5 million which primarily reflected the loss before tax of approximately 9.4 million, as positively adjusted by (i) the increase in accruals, provisions and other payables of approximately HK\$5.9 million mainly due to the increase in accrued Listing expenses; and (ii) the increase in trade payables of approximately HK\$1.9 million. Such effect was partially offset by the increase in the inventories of approximately HK\$2.4 million purchased/produced for meeting customer orders as at 30 April 2017 and the increase in trade receivables of approximately HK\$5.8 million.

### Key financial ratios

	As at/Year ended 31 December		As at/Four months ended 30 April
	2015	2016	2017
Gross margin (%)	30.0	36.6	38.3
Net profit margin (%)	7.5	8.3	N/A
Return on total assets (%)	10.1	9.2	N/A
Return on equity (%)	18.7	16.8	N/A
Current ratio (times)	2.1	2.1	4.1
Quick ratio (times)	2.1	2.0	3.6
Interest coverage ratio (times)	57.3	88.8	N/A
Gearing ratio (%) (Note)	70.6	71.0	N/A

*Note:* Calculated using total debt divided by total equity at the end of the year/period and multiplied by 100%. Total debt is defined to include bank overdraft and bank borrowings and amounts due to related parties in non-trade nature.

### RECENT DEVELOPMENT

Our business operation remained stable after the Track Record Period. There was no change to our general business model and the economic environment up to 31 August 2017. Based on the unaudited financial information of our Group, our revenue for the eight months ended 31 August 2017 was lower than that for the corresponding period in 2016, which was mainly attributable to the difference in the timing of purchase orders and product delivery schedule as requested by our customers, where larger amount of orders are expected to be completed and delivered in the following months of 2017 as compared to the same period in 2016. Our gross profit margin for the eight months ended 31 August 2017 was comparable to that of the corresponding period in 2016.

As at the Latest Practicable Date, the sum of the completed sales for the four months ended 30 April 2017 and the secured orders for delivery in the eight months ending 31 December 2017 of our Group is slightly higher than the revenue of our Group for the year ended 31 December 2016. As such, although the unaudited revenue of our Group for the eight months ended 31 August 2017 recorded a drop when compared to the corresponding period in 2016, our Directors do not consider there is any material adverse change in our trading position since 30 April 2017 up to the date of this prospectus in such regard.

During the Track Record Period, a substantial amount of our revenue was derived from sales to overseas customers and such sales were denominated in US\$ whereas our costs of sales were primarily denominated in RMB. Given our reporting currency is in HKD, the fluctuation in foreign exchange between HKD and RMB will have an impact on our Group's financials. Our gross profit margin during the Track Record Period has been materially affected by (i) the product mix, including but not limited to the design, complexity and nature of our products purchased by our customers; and (ii) the fluctuation in the exchange rates between HKD and RMB. For each of the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, the exchange rate of HKD against RMB ranged between HK\$1.00:RMB0.7880 and HK\$1.00:RMB0.8378, HK\$1.00:RMB0.8321 and HK\$1.00:RMB0.8958, HK\$1.00:RMB0.8326 and HK\$1.00:RMB0.8468, and HK\$1.00:RMB0.8809 and HK\$1.00:RMB0.8964, respectively. The HKD has slightly depreciated against RMB after the Track Record Period and up to the Latest Practicable Date ranging between HK\$1.00:RMB0.8392 and HK\$1.00:RMB0.8873.

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## SUMMARY

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### LISTING EXPENSES

The financial results of our Group for the year ending 31 December 2017 will be adversely affected by the Listing expenses in relation to the Share Offer, the nature of which is non-recurring. The total Listing fees in relation to the Share Offer, primarily consisting of fees paid or payable to professional parties and underwriting fees and commission, are estimated to be approximately HK\$25.6 million (based on the mid-point of the indicative Offer Price range of HK\$0.67 per Offer Share and 100,000,000 Offer Shares). Among the estimated total Listing fees, (i) approximately HK\$8.5 million is expected to be accounted for as a deduction from equity upon Listing; and (ii) approximately HK\$17.1 million would be recognised as expenses in our combined income statements, of which approximately HK\$11.4 million had been recognised up to 30 April 2017 and the balance of approximately HK\$5.7 million is expected to be recognised during the eight months ending 31 December 2017.

### NO MATERIAL ADVERSE CHANGE

Save for the estimated Listing expenses of approximately HK\$5.7 million which will be recognised during the eight months ending 31 December 2017, our Directors do not expect to have any material adverse change in our financial or trading position or prospect since 30 April 2017, being the date of which our latest audited financial information was prepared up to the date of this prospectus and there had been no event since 30 April 2017 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this prospectus.

### USE OF PROCEEDS

Our Directors estimate that the net proceeds from the Share Offer (after deducting the estimated expenses payable by our Group in connection with the Listing) will be approximately HK\$41.4 million based on the Offer Price of HK\$0.67 per Offer Share (being the mid-point of the indicative Offer Price range between HK\$0.65 and HK\$0.69 per Offer Share). It is currently intended that the net proceeds will be applied as follows:

- approximately 56.2%, or HK\$23.3 million, for upgrading production hardware, and facilities and infrastructure
- approximately 26.7%, or HK\$11.0 million, for expanding the Hong Kong headquarters
- approximately 8.4%, or HK\$3.5 million, for participating in local and global exhibitions
- approximately 8.7%, or HK\$3.6 million, as general working capital

Please refer to “Future Plans and Use of Proceeds” for further details of our use of proceeds from the Share Offer and the implementation plans of our business strategies, as well as the reasons for the Listing and the Share Offer.

### SHAREHOLDERS INFORMATION

Immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), Mr. Or Naam, Ms. Chu and Ms. Chan will own 50.8%, 39.7% and 9.5% interest in Classic Charm, respectively, and through Classic Charm in aggregate control 75% of our Shares in issue. Mr. Or Naam, Ms. Chu and Ms. Chan have undertaken to act in concert to exercise the voting rights in our Company through their interests in Classic Charm. Hence, each of Classic Charm, Mr. Or Naam, Ms. Chu and Ms. Chan are our Controlling Shareholders upon Listing, within the meaning of the GEM Listing Rules. Please refer to “History, Reorganisation and Group Structure — Reorganisation” and “Relationship with Our Controlling Shareholders — Our Controlling Shareholders” for further details.

Our Group has entered into, and is expected to continue to carry on, after Listing, certain transactions with certain associates of our Controlling Shareholders. In particular, in respect of the leases of premises we use as production facility from Baoma, the lease terms are for a period commencing from the relevant commencement date up to the 10th anniversary of the Listing Date or of 1 November 2017, as the case may be. We have applied to the Stock Exchange, and the Stock Exchange has granted waivers from strict compliance with the requirements set out in Chapter 20 of

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## SUMMARY

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the GEM Listing Rules in respect of such transactions. Details of these continuing connected transactions are set out in “Connected Transactions — Non-exempt continuing connected transactions”.

### DIVIDEND

On 6 March 2017, Takbo declared a special dividend of approximately HK\$8.9 million to its then shareholders, Mr. Or Naam and Ms. Chu and such dividend has been distributed by way of setting-off against amounts due from related companies.

The declaration of future dividends will be subject to the discretion of our Directors and may depend on, among other things, our results of operations, earnings, cash flow, financial conditions, capital requirements, statutory reserve requirements and any other factors our Directors may consider relevant. Currently, we do not have any predetermined dividend distribution ratio. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Board in the future. For details, please refer to “Financial Information — Dividend”.

### SHARE OFFER STATISTICS

	<u>Based on an Offer Price of HK\$0.65</u>	<u>Based on an Offer Price of HK\$0.69</u>
Market capitalisation at Listing ( <i>Note 1</i> )	HK\$260,000,000	HK\$276,000,000
Unaudited pro forma adjusted net tangible assets per Share ( <i>Note 2</i> )	HK\$0.2829	HK\$0.2925

*Notes:*

1. The calculation of market capitalisation of the Shares is based on the indicative Offer Price range from HK\$0.65 to HK\$0.69 per Offer Share and a total of 400,000,000 Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue but takes no account of any Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme or any Shares which may be granted and issued or repurchased by our Company pursuant to the general mandate for the allotment and issue or repurchase of Shares referred to in “Statutory and General Information” in Appendix IV to this prospectus.
2. See “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus for details regarding the assumptions and calculation basis used.

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## DEFINITIONS

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

“AED”	United Arab Emirates Dirham, the lawful currency of the UAE
“Alpha Business”	Alpha Business Global Limited, a company incorporated in BVI with limited liability on 10 January 2017 and wholly-owned by our Company upon completion of the Reorganisation and being an intermediate holding company of our Group
“Application Form(s)”	<b>WHITE</b> application form(s) and <b>YELLOW</b> application form(s) or, where the context so requires, any of them, which is used in relation to the Public Offer
“Articles” or “Articles of Association”	the articles of association of our Company, conditionally adopted on 29 September 2017 to become effective upon the Listing Date, and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Baoma”	Shantou Baoma Processing Complex Company Limited* (汕頭寶馬工藝製品廠有限公司), a company established in the PRC with limited liability on 5 June 1992 and wholly-owned by Tak Bo Hong and therefore a connected person of our Company
“Board”	our board of Directors
“business day”	a day (other than a Saturday, Sunday or public holiday in Hong Kong) on which licenced banks in Hong Kong are generally open for normal business to the public
“BVI”	the British Virgin Islands
“B&B”	B&B (H.K.) Limited, a company incorporated in Hong Kong with limited liability on 9 April 1999 and owned as to 50% each by Mr. Or Naam and Ms. Chan immediately prior to the Reorganisation, and as part of the Reorganisation, it became an indirect wholly-owned subsidiary of our Company
“CAGR”	compound annual growth rate

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## DEFINITIONS

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“Capitalisation Issue”	the issue of 299,999,997 Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in “Statutory and General Information — Further Information about our Company and its Subsidiaries — 3. Resolutions in writing of the sole Shareholder passed on 29 September 2017” in Appendix IV to this prospectus
“Cayman Islands Companies Law” or “Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961) of the Cayman Islands as consolidated or revised from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of the HKSCC in relation to CCASS, containing the practices, procedures and administrative requirement relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Classic Charm”	Classic Charm Investments Limited, a company incorporated in BVI with limited liability on 17 October 2016 and owned as to 50.8%, 39.7% and 9.5% by Mr. Or Naam, Ms. Chu and Ms. Chan, respectively, and one of our Controlling Shareholders
“close associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies Registry”	the Companies Registry of Hong Kong

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## DEFINITIONS

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“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Takbo Group Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability under the Cayman Islands Companies Law on 8 February 2017
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules and, in the context of this prospectus, means the controlling shareholders of our Company, namely, Mr. Or Naam, Ms. Chu, Ms. Chan and Classic Charm, being a group of controlling shareholders and who have been and will be acting in concert to exercise their voting rights in our Company
“core connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Cosbe”	Cosbe Laboratory Inc.* (廣東一芙化妝品有限公司) (formerly known as 汕頭一芙化妝品有限公司), a company established in the PRC with limited liability on 28 June 2002 and directly wholly-owned by B&B. As part of the Reorganisation it became an indirect wholly-owned subsidiary of our Company
“Cosbe Facility”	our production facility located in Shantou, PRC, for production of beauty products, which is leased from Baoma
“Cosbe Facility Premise I”	has the meaning ascribed to it in “Connected Transactions — Non-exempt continuing connected transactions — 3. Leases of factory/office premises from Baoma — Factory Tenancy Agreement 1”
“Cosbe Facility Premise II”	has the meaning ascribed to it in “Connected Transactions — Non-exempt continuing connected transactions — 3. Leases of factory/office premises from Baoma — Factory Tenancy Agreement 2”
“Dawning Beauty”	Dawning Beauty Limited, a company incorporated in BVI with limited liability on 30 August 2016 and wholly-owned by Alpha Business upon completion of the Reorganisation and being an intermediate holding company of our Group

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## DEFINITIONS

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“Deed of Indemnity”	the deed of indemnity dated 29 September 2017 and executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries) containing the indemnities more particularly referred to in “Statutory and General Information — Other information — 14. Tax indemnity” in Appendix IV to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 29 September 2017 and executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries) regarding certain non-competition undertakings, a summary of the principal terms of which is set out in “Relationship with Our Controlling Shareholders”
“Director(s)”	director(s) of our Company
“EIT Law”	PRC Enterprise Income Tax Law (中國企業所得稅法)
“ <b>electronic application instruction(s)</b> ”	instruction given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for the Public Offer Shares
“Estate Duty Ordinance”	the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Full Colour”	Full Colour Developments Limited, a company incorporated in BVI with limited liability on 4 January 2017 and wholly-owned by Alpha Business upon completion of the Reorganisation and being an intermediate holding company of our Group
“F&S”	Frost & Sullivan International Limited, a market research company and an Independent Third Party
“F&S Report”	the industry report prepared by F&S, which was commissioned by us in relation to the beauty products market in the PRC and the U.S.
“GDP”	gross domestic product
“GEM”	the Growth Enterprise Market of the Stock Exchange

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## DEFINITIONS

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“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM as amended, supplemented or otherwise modified from time to time
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
“Group”, “our Group”, “we”, “us” or “our”	our Company and its subsidiaries or any of them, or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“Haohong”	Meizhou City Haohong Crafts and Commodity Company Limited* (梅州市皓泓工藝日用品有限公司), a company established in the PRC with limited liability on 14 October 2004 and wholly-owned by Tak Bo Hong and therefore a connected person of our Company
“HKFRSs”	Hong Kong Financial Reporting Standards (including Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, the Hong Kong branch share registrar and transfer office of our Company
“Independent Third Party(ies)”	a person(s) or company(ies) who or which is/are independent of and not connected (within the meaning of the GEM Listing Rules) with any of the directors, chief executive or substantial shareholders of our Company or its subsidiaries or any of their respective associates



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## DEFINITIONS

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“Infast”	Infast Brokerage Limited, being one of the Joint Lead Managers and Joint Bookrunners to the Listing and a corporation licenced to carry out Type 1 (dealing in securities) regulated activity under the SFO
“Jinfeng”	Shantou Jinfeng Arts & Crafts Company Limited* (汕頭市進峰工藝製品有限公司), a company established in the PRC with limited liability on 25 June 2010 and owned by cousins of Mr. Or Naam and Mr. Or Huen and therefore a connected person of our Company
“Joint Lead Managers” or “Joint Bookrunners”	collectively SCS, Infast and Lego Securities and each a Joint Lead Manager and a Joint Bookrunner
“Latest Practicable Date”	3 October 2017, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Lego Securities”	Lego Securities Limited, being one of the Joint Lead Managers and Joint Bookrunners to the Listing and a corporation licenced to carry out Type 1 (dealing in securities) regulated activity under the SFO
“Listing”	the listing of the Shares on GEM
“Listing Date”	the date, expected to be on or about Friday, 27 October 2017, on which the Shares are listed on GEM and from which date dealings in the Shares are permitted to commence on GEM
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company adopted on 29 September 2017 and as supplemented, amended or otherwise modified from time to time
“MOFCOM”	the Ministry of Commerce of the PRC (中國商務部)
“Ms. Chan”	Ms. Chan Hoi Yan Polly, one of our executive Directors and one of our Controlling Shareholders, spouse of Mr. Or Naam, daughter-in-law of Ms. Chu and sister-in-law of Mr. Or Huen
“Ms. Chu”	Ms. Chu Siu Fong, one of our Controlling Shareholders, mother of Mr. Or Naam and Mr. Or Huen and mother-in-law of Ms. Chan

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## DEFINITIONS

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“Mr. Or Huen”	Mr. Or Huen, one of our executive Directors, brother of Mr. Or Naam, son of Ms. Chu and brother-in-law of Ms. Chan
“Mr. Or Naam”	Mr. Or Naam, one of our executive Directors and one of our Controlling Shareholders, spouse of Ms. Chan, son of Ms. Chu and brother of Mr. Or Huen
“Mr. TM Or”	Mr. Or Tak Ming, spouse of Ms. Chu, father of Mr. Or Naam and Mr. Or Huen, and father-in-law of Ms. Chan
“NASDAQ”	the National Association of Securities Dealers Automated Quotations
“NDRC”	the National Development and Reform Commission of PRC (中國國家發展和改革委員會)
“New Cosbe Facility”	has the meaning ascribed to it in “Future Plans and Use of Proceeds — Business strategies and future plans — (l) Increase our production capabilities and capacities — (vii) Implementation of our Strategy by setting up the New Cosbe Facility — (i) Rental of new production facility”
“New Cosbe Facility Premise I”	has the meaning ascribed to it in “Connected Transactions — Non-exempt continuing connected transactions — 3. Leases of factory/office premises from Baoma — Factory Tenancy Agreement 3”
“New Cosbe Facility Premise II”	has the meaning ascribed to it in “Connected Transactions — Non-exempt continuing connected transactions — 3. Leases of factory/office premises from Baoma — Factory Tenancy Agreement 4”
“NYSE”	the New York Stock Exchange
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.69 per Offer Share and expected to be not less than HK\$0.65 per Offer Share, such price to be agreed upon by our Company and SCS (for itself and on behalf of the other Underwriters) on the Price Determination Date
“Offer Shares”	collectively, the Placing Shares and Public Offer Shares

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## DEFINITIONS

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“PFS” or the “Co-Manager”	Pacific Foundation Securities Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 9 (asset management) regulated activities under the SFO
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters on behalf of our Company for cash at the Offer Price with professional, institutional and other investors in Hong Kong as described in “Structure and Conditions of the Share Offer”
“Placing Shares”	the 90,000,000 new Shares (subject to reallocation) initially being offered for subscription by our Company at the Offer Price under the Placing, as described in “Structure and Conditions of the Share Offer”
“Placing Underwriters”	the underwriters of the Placing Shares who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares
“Placing Underwriting Agreement”	the conditional placing underwriting agreement relating to the Placing expected to be entered into by, among others, our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Placing Underwriters on or about the Price Determination Date
“PRC” or “China”	the People’s Republic of China, excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“PRC Legal Advisers”	Shujin Law Firm (廣東信達律師事務所), the legal advisers of our Company as to PRC law
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) prior to its repeal and replacement on 3 March 2014 by the Companies Ordinance and the Companies (WUMP) Ordinance
“Price Determination Date”	the date on which the Offer Price is to be determined, which is expected to be on or about Wednesday, 18 October 2017 and in any event no later than Wednesday, 25 October 2017

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## DEFINITIONS

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“Public Offer”	the offer of the Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price on and subject to the terms and conditions stated in this prospectus and in the Application Forms as further described in “Structure and Conditions of the Share Offer”
“Public Offer Shares”	the 10,000,000 new Shares (subject to reallocation) initially being offered by our Company for subscription at the Offer Price under the Public Offer, as described in “Structure and Conditions of the Share Offer”
“Public Offer Underwriters”	the underwriters of the Public Offer Shares whose names are set out in “Underwriting — Public Offer Underwriters”
“Public Offer Underwriting Agreement”	the conditional underwriting agreement dated 12 October 2017 relating to the Public Offer entered into by our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Public Offer Underwriters, details of which are set out in “Underwriting”
“Purchase Framework Agreement”	has the meaning ascribed to it in “Connected Transactions — Non-exempt continuing connected transactions — 4. Purchase of beauty bags from Baoma”
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing, details of which are set out in “History, Reorganisation and Group Structure”
“SAFE”	the State Administration of Foreign Exchange (中國國家外匯管理局)
“SAT”	the State Administration of Taxation of the PRC (中國國家稅務總局)
“SCS”	Supreme China Securities Limited, being one of the Joint Lead Managers and Joint Bookrunners to the Listing and a corporation licenced to carry out Type 1 (dealing in securities) regulated activity under the SFO
“SFC”	the Securities and Futures Commission of Hong Kong

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## DEFINITIONS

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“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 29 September 2017, a summary of its principal terms is set out in “Statutory and General Information — 13. Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Sky Choice”	Sky Choice Development Limited, a company incorporated in Hong Kong with limited liability on 20 April 2007 and owned in equal shares by Mr. Or Naam and Ms. Chu and therefore a connected person of our Company
“Smart Path”	Smart Path Development Limited, a company incorporated in Hong Kong on 2 April 2007 with limited liability and owned in equal shares by Mr. Or Naam and Ms. Chan and therefore a connected person of our Company
“Sole Sponsor”	Lego Corporate Finance Limited, a corporation licenced to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber Share”	has the meaning ascribed to it in “History, Reorganisation and Group Structure — Corporate history — Our Company”
“subsidiary” or “subsidiary(ies)”	has the meaning ascribed to it under the GEM Listing Rules, unless the context otherwise requires
“substantial shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Takbo”	Takbo Limited (formerly known as Tak Bo Hong Company Limited), a company incorporated in Hong Kong with limited liability on 20 December 1994 and owned as to 51% and 49% by Mr. Or Naam and Ms. Chu, respectively immediately prior to the Reorganisation, and as part of the Reorganisation, it became an indirect wholly-owned subsidiary of our Company

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## DEFINITIONS

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“Tak Bo Hong”	Tak Bo Hong, a partnership registered in Hong Kong jointly and severally owned by Ms. Chu, one of our Controlling Shareholders and Mr. TM Or, the spouse of Ms. Chu and therefore a connected person of our Company
“Tak Bo Hong Group”	Tak Bo Hong, together with its wholly-owned subsidiaries, namely Baoma, Haohong and Yecao
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the two years ended 31 December 2016 and the four months ended 30 April 2017, and the phrase “for/ during the Track Record Period”, following or followed by a series of figures or percentages, refers to information relating to the two years ended 31 December 2016 and the four months ended 30 April 2017, respectively
“UAE”	the United Arab Emirates, its territories, its possessions and all areas subject to its jurisdiction
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“U.K.”	The United Kingdom of Great Britain and Northern Ireland
“United States” or “U.S.”	The United States of America
“U.S. Securities Act”	U.S. Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“VAT”	value-added tax
“V.M.”	V.M. Limited, a company incorporated in Hong Kong on 29 August 2005 and wholly-owned by Mr. Or Naam and therefore a connected person of our Company
“ <b>WHITE</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicant’s or applicants’ own name(s)

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## DEFINITIONS

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“Yecao”	Shantou City Yecao Apparel Company Limited* (汕頭夜草服飾有限公司), a company established in the PRC with limited liability on 3 June 2010 and wholly-owned by Baoma and therefore a connected person of our Company
“YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be deposited directly into CCASS
“HK\$” or “HKD” or “Hong Kong dollar(s)”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“sq.ft.”	square feet
“sq.m.” or “m <sup>2</sup> ”	square metre(s)
“US\$ “ or U.S. dollar(s)” or “USD”	United States dollars, the lawful currency of the United States
“%”	per cent

*All dates and times in this prospectus refer to Hong Kong time unless otherwise stated.*

*In this prospectus, unless otherwise specified, amounts denominated in Renminbi and U.S. dollars have been translated, for the purpose of illustration only, into Hong Kong dollars at an exchange rate of RMB1.00 = HK\$1.25 for the year ended 31 December 2015, RMB1.00 = HK\$1.16 for the year ended 31 December 2016, RMB1.00 = HK\$1.12 for the period commencing on 1 January 2017 and up to the Latest Practicable Date and US\$1.00 = HK\$7.75 for two years ended 31 December 2016 and for the period commencing from 1 January 2017 and up to the Latest Practicable Date. Such conversions shall not be construed as representations that amounts in Renminbi, Hong Kong dollars or U.S. dollars were or could have been or could be converted into Renminbi, Hong Kong dollars or U.S. dollars (as the case may be) at such rates or any other exchange rates on such date or any other date.*

*Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments and, accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Where information is presented in thousands or millions of units, amounts may have been rounded up or down.*

*In this prospectus, if there is any inconsistency between Chinese names of the entities or enterprises established in China and their English translations, the Chinese names shall prevail. English translation of company names in Chinese or another language which are marked with “\*” are for identification purpose only.*

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## GLOSSARY

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*This glossary of technical terms contains explanations and definitions of certain terms used in this prospectus in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meanings or usage of these terms.*

“AQL”	assurance quality level
“bulk”	the semi-finished product of beauty products after the ingredients having been mixed together
“colour cosmetics”	one of the major categories of beauty products, comprising facial make-up, eye make-up, lip product and nail product
“ERP”	enterprise resource planning system
“EXW”	EX works, means the seller delivers when he places the goods at the disposal of the buyer at the seller’s premises or another named place not cleared for export and not loaded on any collecting vehicle
“FCA”	free carrier, means the seller delivers the goods, cleared for export, to the carrier nominated by the buyer at the named place
“FOB”	free on board, means the seller delivers when the goods pass the ship’s rail at the named port of shipment
“fragrances”	one of the major categories of beauty products
“GB Standard”	the Chinese national standard issued by the Standardisation Administration of China which constitute the basis for product testing
“GMPC”	Good Manufacturing Practice of Cosmetics Products, being a standard laid down in the Guideline for Good Manufacturing Practice of Cosmetics Products published by the European Union and U.S. Food and Drug Administration which sets out the recommended practices for the manufacture of cosmetics and personal care products
“ISO”	the International Organisation of Standardisation, world-wide federation of national standard bodies
“ISO 9001”	the certification for an internationally recognised standard for quality management system



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## GLOSSARY

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“L/C”	letter of credit
“LDP”	landed duty paid, means the seller delivers the goods to the buyer, cleared for import, and to the named place of destination
“ODM”	original design manufacturing, whereby we provide the product designs
“OEM”	original equipment manufacturing, whereby our customer provides the product designs and specifications
“PMC”	production material control
“R&D”	research and development
“toiletries”	one of the major categories of beauty products, comprising body care, hand care and personal care accessories
“YOY”	year-on-year

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## FORWARD-LOOKING STATEMENTS

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This prospectus contains forward-looking statements that state our Company's belief, expectations, or intentions for the future. The words "aim", "anticipate", "believe", "could", "estimate", "expect", "forecast", "going forward", "intend", "ought to", "may", "plan", "potential", "project", "seek", "should", "will", "would", "wish" and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements.

These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect.

These forward-looking statements reflect the current view of our Company with respect to future events and are, by their nature, subject to significant risks, assumptions and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our various measures to implement such strategies;
- our operations and business prospects, including development plans for our existing business;
- changes in policies, legislation, regulations or practices in the industry and those countries or territories in which we operate that may affect our business operations;
- our financial condition and results of operations;
- changes in economic conditions and competitions in the area in which we operate, including a downturn in general economy;
- the regulatory environment and industry outlook in general;
- future developments in the competition markets of our industry and actions of our competitors;
- catastrophic losses from fires, floods, wind; and
- other factors beyond our control and other risks and uncertainties described in "Risk Factors".

Subject to the requirements of the applicable laws, rules (including the GEM Listing Rules) and regulations, our Group does not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way our Group expects, or at all.

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## **FORWARD-LOOKING STATEMENTS**

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Accordingly, you should not place undue reliance on any forward-looking information or statements. All forward-looking statements in this prospectus are qualified by reference to the cautionary statements set forth in this section.

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

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## RISK FACTORS

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*You should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks and uncertainties associated with an investment in our Company before making any investment decision in relation to our Company. The business, financial position, or results of business operation of our Group can be materially and adversely affected by any of these risks. The market price of the Offer Shares could fall significantly and you may lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS

**Substantial amount of our revenue is derived from our top five customers. Any decrease or loss of business with our customers, or if there is a change in their creditworthiness, our business, financial condition and results of operations would be materially and adversely affected.**

Aggregate sales to our top five customers accounted for approximately 78.6%, 76.8% and 84.3% of our revenue for the Track Record Period, respectively. We entered into master agreements with four of our top five customers during the Track Record Period, which sets out, among others, the payment terms, shipping terms, title of products, product testing, termination, etc. However, only one of these master agreements contain exclusivity terms and none of them stipulated any minimum purchase order, and our customers would still sign individual purchase orders with us. In other words, our customers, including our top five customers, are not obliged in any way to continue placing orders with us at all or at the same or similar level which they historically have done. Furthermore, we had not obtained consent from two of our top five customers in respect of the Reorganisation and they may be entitled to terminate their business relationships with us pursuant to the terms of the relevant master agreements. If any of our key customers, including our top five customers, were to substantially reduce the volume and/or value of the orders it places with us or were to terminate its business relationship with us entirely, there can be no assurance that we would be able to obtain orders from other customers to replace any such loss of sales or that, if we were to be able to obtain other orders, they would be on commercially reasonable terms. In addition, if any of our customers fails to settle the sale proceeds in accordance with the agreed credit terms, the working capital position of our Group may be adversely affected. Bad debt provisions or write-offs may also be required for receivables, which will have an adverse effect on our profitability. If any of these relationships were to be so altered and we were unable to obtain replacement orders, or if there is a change in our customers' creditworthiness, our results of operations would be materially and adversely affected.

**We are exposed to risks in the exchange rate fluctuations.**

During the Track Record Period, approximately 96.3%, 96.3% and 92.5% of our revenue are derived from sale to customers, including globally renowned chain superstore and beauty product brand owners, who are in the U.S. and other countries outside the PRC and Hong Kong. Our sales to these customers are denominated in USD. On the other hand, substantially all of our raw materials and supplies are supplied by suppliers located in the PRC (and the remaining suppliers are

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## RISK FACTORS

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located in Canada, Hong Kong and Vietnam) and settlement for such purchases were made in RMB during the Track Record Period. Given our reporting currency is in HKD, our profit margins will be materially affected to the extent that there is any significant fluctuation in the exchange rates between HKD and RMB. Any significant fluctuation will result in increases or decreases in our profits, and may also materially affect our business and results of operations.

As at 31 December 2015 and 2016, if RMB had strengthened/weakened by 13.7% with all other variables held constant, the post-tax profit for the respective years ended 31 December 2015 and 2016 would have been approximately HK\$120,000 and HK\$761,000 lower/higher, mainly as a result of foreign exchange losses/gains on revaluation of RMB denominated cash and cash equivalents, trade receivables, trade payables, other payables, amounts due to related parties and bank borrowings. As at 30 April 2017, if RMB had strengthened/weakened by 1.8% with all other variables held constant, the post-tax loss for the four months ended 30 April 2017 would have been approximately HK\$55,000 lower/higher, mainly as a result of foreign exchange losses/gains on revaluation of RMB denominated cash and cash equivalents, trade receivables, trade payables, other payables, amounts due to related parties and bank borrowings.

We have not entered into any agreements to hedge our exchange rate exposure relating to RMB and there is no assurance that we will be able to enter into such agreements on commercially viable terms in the future. Accordingly, we can offer no assurance that future exchange rate fluctuations between HKD and RMB will not adversely affect our business.

**We may be unable to implement our expansion plan and business strategies effectively and we may be unsuccessful in capturing future business opportunities.**

Our future growth and ability to capture future business opportunities primarily depend on whether we are able to successfully or effectively implement our expansion plans. For details regarding our expansion plan, please refer to “Future Plans and Use of Proceeds”. The implementation of our expansion plans are subject to uncertainties and risks. There is no assurance that we will succeed in implementing our expansion plans or executing our growth strategies due to a number of factors beyond our control, including changes in rules and regulations applicable to us and general market demands for our products, or that our objectives will be fully or partially or effectively accomplished. If we are unable to implement our expansion plans and our business strategies successfully or effectively, our business, profitability and financial conditions in the future may be materially and adversely affected. Furthermore, our business strategies include targeting to put more focus on non-seasonal standalone beauty products so as to enable us to attract more beauty products brand owner customers. It is expected to take time to attract such new customers or we may not be able to attract any new customers at all. If we are unable to generate sufficient revenue from our business or if our financial needs are greater than expected, we may need to further raise funds via debt or equity means or adjust our intended use of proceeds from the Share Offer or future plans as described in this prospectus, including our plans for hiring of more staffs, expansion of our office size and spending on advertising and marketing activities. If our future revenue are not sufficient for us to sustain such plans, our financial performance may be adversely affected.

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## RISK FACTORS

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**Our business is susceptible to seasonal fluctuations and our results of operations may be adversely affected if this risk is not effectively managed.**

Historically, as our beauty products are mostly sold in seasonal gift sets or standalone beauty products, for sale in holiday and festive seasons, we have experienced higher sales of beauty products in the third quarter of each year, which is primarily due to our customers preparing for western festivals that take place in the fourth quarter of the year. In respect of beauty bags, we generally experienced higher sales in the second and third quarters of each year. For further details, please refer to “Business — Seasonality”. If we cannot effectively plan our production and delivery schedules and secure purchase orders from our customers during low season, our results of operations may be adversely affected.

**Our customers make purchases from us on an order by order basis, which exposes us to potential volatility in our revenue.**

Our sales are made based on actual purchase orders received and we do not enter into long term contract with purchase obligations with our customers. Our customers may cancel or defer purchase orders. Our customers’ purchase orders may vary from period to period, and it is difficult to accurately forecast future order quantities. There is no assurance that any of our customers will continue to place purchase orders with us in the future at the same volume, or at the same margin, as compared to prior periods, or at all. We may be unable to locate alternative customers to place new purchase orders. There is also no assurance that the volume or margin of our customers’ purchase orders will be consistent with our expectations. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

**We face risks associated with the marketing and sales of our products to our overseas customers and our ability to maintain profitability and achieve business growth would depend on how we effectively manage these risks.**

During the Track Record Period, we generated over 78% of our revenue from our customers in the U.S. We also exported our beauty products to UAE, United Kingdom, Germany, Canada, Sri Lanka, Fiji and other countries. For further details of the geographical breakdown of our revenue during the Track Record Period, please refer to “Business — Sales and marketing”. As our business heavily rely on our export sales, any fluctuations in the global economy, especially the U.S. economy, may adversely affect our profitability. Our export sales are generally subject to certain inherent risks, including:

- changes and development in the local political, regulatory and business conditions;
- imposition of trade barriers, such as export requirements, tariffs, taxes, other export restrictions and anti-dumping measures, which could affect the price competitiveness of our products;
- compliance with the requirements of applicable sanctions, anti-bribery and related laws and regulations;

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- political tension arising from dispute between the PRC and countries where we sell our products;
- changes in customer preference and trends in the local markets;
- fluctuations in exchange rates of foreign currencies; and
- our inability to obtain, maintain or enforce intellectual property rights in jurisdictions where we sell our products.

These uncertainties could have a material adverse effect on our business, results of operation and financial conditions, and affect our ability to remain profitable and achieve business growth.

In particular, there is no assurance that changes in the laws, regulations or government policies of the overseas countries on the sale of beauty products will not affect our ability to continue to export our beauty products to such markets or effectively compete with any domestic beauty products manufacturers. In addition, we are subject to risks that the laws, regulations or government policies in markets where we sell or intend to sell our products in the future may impose more stringent standards on us in our product manufacturing processes. Should any such events occur, we may need to withdraw from selling in certain markets and our financial conditions and results of operations may therefore be adversely affected.

**The sales and profitability of our products are dependent on our customers' business performance.**

We sell our products mainly to retailers, beauty product brand owners and trading companies. For further details, please refer to “Business — Sales and marketing”. The business performance of our customers, which is beyond our control, would adversely affect our sales to our customers. Our customers could underperform due to a number of factors, such as changes in business strategies, failure to develop successful marketing strategies, changes in the market demand for our customers' products and adverse market or economic conditions in the markets in which our customers operate, in particular, the U.S. If the business performance of our customers deteriorates, they could reduce the amount of their purchases for our products, or terminate their business relationship from us, which could have a material and adverse impact on our business, financial condition, results of operations and prospect.

**We may be unable to maintain our quality control systems effectively and any failure to maintain our quality standards may affect our reputation and business operations.**

Our success depends to a large extent on the quality of our products and the ability to maintain effective quality control systems. In particular, our master agreement with one of our top five customers requires that we maintain ISO 9001 certification and passing certain ethical standards, security audits and factory capability and capacity audit. Furthermore, we may be required by our sales agreements to comply with the relevant local standards, laws or regulations, or the internal standards or guidelines of our customers. Delivery of defective products to our customers will adversely affect our reputation and prospects to secure repeated orders of our

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customers. The Cosbe Facility has been granted ISO 9001 and GMPC accreditations. We believe that these recognitions and accreditations are vital to our past and future success. In addition, if our products failed to adhere to the necessary quality standards and require large scale product recalls due to defects, our reputation, business operation and financial results will be adversely affected. Any significant failure or deterioration of our quality control systems could result in a loss of such recognitions and certifications, which in turn results in loss of customers, and would therefore have a negative impact on our business, financial condition and results of operations. There is no assurance that defects, errors or vulnerabilities would not exist in the quality control tests conducted on our products, whether by ourselves or in external laboratories, if any. As we also source our beauty bags from external manufacturers, there is no assurance that they will be able to maintain the level of necessary quality standards to meet our customers' expectation, in the event that there is a failure or deterioration of the quality control systems of these external manufacturers, our reputation, business operation and financial results will also be adversely affected.

**Our insurance coverage may not be sufficient to cover all losses or potential claims from our customers or their end-consumers which would affect our business, financial condition and results of operations.**

Most of our customers will further sell our products to their end-consumers. As such, as manufacturer of our products, we may face an inherent risk of exposure to product liability claims in the event that the use of our products results in any health or safety issue or damage to the end-consumers. The end-consumers of our products may have the right to bring actions against us under tort and we may also be subject to tortious liabilities for any damage caused by defects of our products. During the Track Record Period and up to the Latest Practicable Date, we maintained product liability insurance with global coverage in respect of some of our products of up to US\$10 million in aggregate and US\$5 million for each incident. Some of our customers require us to furnish with them a product liability insurance certificate on an annual basis. As most of our products are sold to the U.S., there are certain laws and regulations on product liability that are applicable to us. For further details on the applicable laws on product liability in the U.S., please refer to "Regulatory Overview — Overview of U.S. laws and regulations". We may become subject to liabilities against which we are not insured sufficiently or at all or liabilities against which cannot be insured. There is no assurance that our current levels of insurance are sufficient to cover all potential risks and losses. Any losses that we may incur which we are not insured against may adversely affect our business, financial condition and results of operations.

**We are exposed to credit risks of our customers.**

We rely on the businesses generated from our customers. We grant our customers a credit period of 14 to 90 days. We had trade receivables which were past due but not impaired of approximately HK\$10.7 million, HK\$5.4 million and HK\$11.2 million as at 31 December 2015 and 2016 and 30 April 2017, respectively. We do not have access to all information of our customers to determine their creditworthiness. Some of our customers have only had a short business relationship with us. Our customers may discontinue, limit or fail to enhance their respective current level of business engagements with us. The complete financial and operational information of our customers is not always available to our Directors, and our Directors are not in any position to obtain such



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information. Our average trade receivables turnover days decreased for the two years ended 31 December 2016 from approximately 70.8 days to 39.6 days, respectively and increased to 77.2 days, for the four months ended 30 April 2017. If any of our major customers experience any financial difficulty, our business with such customers and settlement of outstanding amounts owing to us may be adversely affected. Moreover, any deterioration of the financial status of our customers may cause reduction in their orders for our products and/or expose us to higher credit risks in terms of their timeliness of payments which may in turn adversely affect our results of operations and profitability.

**Fluctuations in the price, availability and quality of raw materials and other supplies could disrupt our production and increase costs of sales.**

Chemicals, such as surfactants, emulsifiers, stabilisers, oils, waxes, colour pigments, fragrances and extracts are the principal raw materials used in the production of our beauty products. We also purchase packaging materials such as labels, paper prints, caps, bottles, cases, boxes and bags. Substantially all of our raw materials and supplies are supplied by suppliers located in the PRC, while the remaining suppliers are located in Canada, Hong Kong and Vietnam. Approximately 85.9%, 83.2%, 89.6% and 79.4% of our cost of sales represented costs of raw materials and inventories for the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, respectively. Save for the Purchase Framework Agreement, we do not enter into long-term agreements with our suppliers and do not hedge against any potential fluctuation in the raw material and supplies costs. We purchase supplies on a confirmed order basis. There is no assurance that our suppliers will continue to supply us the raw materials and other supplies we need to produce our beauty products at favourable or similar prices, or at all. If we experience an interruption, reduction or termination in supply of raw materials and other supplies from our suppliers, the production of our beauty products could be disrupted and our production costs may also increase.

In addition, our results of operations depend on our ability to accurately estimate the price trend of the raw material and other supplies over the production period of the respective order and our ability to pass on the expected increase in raw material and supplies prices, if any, when we negotiate product prices with our customers. The cost of packaging materials, including beauty bags sold together with beauty products, was the largest component of our purchases of materials during the Track Record Period. We do not manufacture beauty bags in-house and all of our beauty bags are produced by external manufacturers. In the event that the prices of raw materials for the production of beauty bags continue to rise resulting in increased prices charged by these manufacturers and we are unable to increase the prices of our products to the same or higher extent or in a timely manner, our profitability may be adversely affected.

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**Any shortage in labour, increase in labour costs, strikes, labour unrests or other adverse factors affecting our labour force may have a material adverse effect on our business operations.**

We plan to diversify our product range and enhance our product portfolio and to increase our production capabilities and capacities in the long-run. In furtherance of such growth plan, we will set up another production facility which is undergoing refurbishment as at the Latest Practicable Date. While we plan to increase the level of automation at our production facility, the production process of our beauty products remains labour-intensive. As at the Latest Practicable Date, we had a total of 13 and 101 full-time employees in Hong Kong and the PRC, respectively, of which 62 employees belong to our production department based in the PRC. As we expand our production capabilities and capacities, we will require more production personnel. There is no assurance that we will not experience any shortage of labour for our production. Given the economic growth in the PRC, competition for labour is substantial and labour costs have been increasing generally, and we cannot assure you that we can retain and attract sufficient qualified employees and/or on commercially reasonable terms in the future. If labour costs continue to increase in the PRC, our production costs may increase eventually and we may not be able to shift these extra costs to our customers. If we fail to retain and attract sufficient labour, we may not be able to effectively implement our expansion plans, our business, prospects, financial condition and results of operations would be materially and adversely affected.

**Significant product returns from our customers may affect our financial performance.**

Our products are customised and tailor-made for our customers. Product samples are prepared in accordance with the customers' specifications for confirmation before mass production. Product returns are negotiated with customers on a case-by-case basis, where we consider it important to maintain good long-term business relationships with that customer. For the Track Record Period, our total product return and compensation claim was insignificant. There is no assurance that our customers will not request for the return of our products in the future. In the event there is any significant product return from our customers, which are primarily located in overseas markets, then our business, financial performance and reputation may be adversely affected.

**We may be exposed to risks of infringement in relations to our intellectual property rights and we may be exposed to infringement or misappropriate claims by third parties.**

The success of our business relies heavily upon our ability to protect our intellectual property rights that came into our possession for the production of our ODM and OEM products, as well as our ability to protect our own brands, including "Pink Viva", "Secret Lace" and "Gorgeous Girl Forever". There is no assurance that our measures intended to protect the above-mentioned intellectual property rights are sufficient in preventing any possible infringement by third parties, or any possible leakage of confidential information relating to these intellectual property rights by our staff who have access to such information. Therefore, there is no assurance that we will be able to sufficiently protect our intellectual property rights. If our intellectual property rights are infringed by third parties, our business will be materially and adversely affected.

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In addition, there is no assurance that the designs provided by our customers or developed by us based on our customers' specifications and the products bearing our customers' trademark(s) will not infringe any third party's intellectual property rights, and in case of infringement, we may be subject to infringement or misappropriation claims by such third parties. If our products are proved to have infringed any third party intellectual property rights, we may be required to compensate the owner of the intellectual property right for the damages suffered as a result of the infringement or to pay a fine for such infringement. During the Track Record Period and up to the Latest Practicable Date, we did not experience any claim related to any alleged intellectual property right infringement against us. Nevertheless, there is no assurance that we will not face such claims in future. In such event, our business may be materially and adversely affected.

**Our research and development on new products may not be successful and our research and development of new products may not be well-received by the market.**

In respect of our ODM business, our customers are served by our design and research and development teams of design personnel and technical experts to enjoy our "one-stop service" in terms of design, development and production of quality and tailor-made products. If our design, research and development capacities fail to meet our customers' expectations, our business relationship with them may be adversely affected, which may have an adverse impact on our ODM business and in turn our results of operations.

**We may be unable to maintain high utilisation rates at our production facility which may materially and adversely affect our margins and profitability.**

Higher utilisation rates of our production facility allow us to allocate fixed costs over a greater unit of products produced, thus increasing our profit margins by means of economies of scale. The utilisation rates of the Cosbe Facility during the Track Record Period for colour cosmetics (powder-based formula), toiletries (liquid-type formula) and toiletries (emulsion-type formula) exceeded 100% during peak seasons but are relatively low during non-peak seasons. The utilisation rates of our production facility depend primarily on the demand for our products. The utilisation rates may also be affected by various other factors, such as skills of our employees, adverse weather conditions, natural disasters and breakdown of our production equipment. There is no assurance that we will be able to maintain a comparable level of or improve the level of output and utilisation rates at our production facilities in the future. The expected monthly production capacity of the New Cosbe Facility for colour cosmetics (wax-based formula), colour cosmetics (powder-based formula), toiletries (liquid-type formula), toiletries (emulsion-type formula) and fragrances will be approximately 39.9 tonnes, 11.3 tonnes, 275.2 tonnes, 139.2 tonnes and nil, respectively, as compared to the monthly production capacity of the Cosbe Facility for colour cosmetics (wax-based formula), colour cosmetics (powder-based formula), toiletries (liquid-type formula), toiletries (emulsion-type formula) and fragrances of approximately 9.6 tonnes, 15.6 tonnes, 100.0 tonnes, 48.0 tonnes and 22.5 tonnes, respectively. In the event we are unable to achieve high utilisation rates for any or all of our production facilities, our business, financial condition and results of operations may be materially and adversely affected.

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**Our future capital expenditure on the setting up of the New Cosbe Facility and purchase of new machineries will result in increased depreciation expenses.**

For the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, we recorded depreciation on property, plant and equipment of approximately HK\$1.8 million, HK\$1.6 million, HK\$0.5 million and HK\$0.4 million, respectively. We intend to invest approximately HK\$32.5 million for the renovation and establishment of the New Cosbe Facility. It is estimated that the depreciation expense in relation to the New Cosbe Facility is approximately HK\$1.1 million for the year ending 31 December 2018. As such, it is anticipated that our depreciation expenses will increase after the Listing and may potentially result in a material adverse effect on our business, financial position and results of operations in the future.

**There is no assurance that we could maintain or continue to improve our gross profit margin and net profit margin in the future.**

Our gross profit margin increased from approximately 30.0% for the year ended 31 December 2015 to approximately 36.6% for the year ended 31 December 2016 and our net profit margin increased from approximately 7.5% for the year ended 31 December 2015 to approximately 8.3% for the year ended 31 December 2016. Our gross profit margin increased from approximately 37.3% for the four months ended 30 April 2016 to approximately 38.3% for the four months ended 30 April 2017. Our gross profit and net profit margins will continue to be affected by various factors, including market demand for our products, fluctuation of exchange rate between HKD and RMB, industry competition, fluctuation of raw material prices and other risks described in this prospectus. There can be no assurance that we could maintain or continue to improve our profit margins or overall financial results in the future.

**We may experience weak liquidity as we had recorded negative cash flow from our operating activities in the past.**

For the four months ended 30 April 2017, we recorded negative cash flow from our operating activities of approximately HK\$8.5 million, mainly due to the cash payment of Listing expenses, also the net changes in working capital including the increase in inventories of approximately HK\$2.4 million and trade receivables of approximately HK\$5.8 million offset with the increase in trade payables of approximately HK\$1.9 million. Please refer to “Financial Information — Liquidity and capital resources” for a more detailed discussion. We cannot assure you that we will not experience another period of negative cash flow from our operating activities in the future.

**We compete in a highly fragmented market and may be unable to maintain our revenue and market share.**

We operate in a highly fragmented beauty products manufacturing market and there are no market dominated players. We therefore compete with different beauty product manufacturers on quality, price, design, production capability and ability to provide value-added services, and face with competition from companies differing in sizes and product offerings. If we do not compete successfully against current or potential competitors, our revenue and market share may decline. In

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addition, if we are unable to compete effectively, there is no assurance that we will be able to maintain or improve our profit margin and our results of operations and financial position may be adversely affected.

**We may be subject to liability in connection with industrial accidents at our production facility.**

As the production process of our Group involves the operation of tools, equipment and machinery which are potentially dangerous, industrial accidents resulting in personal injuries or even deaths may occur. There is no assurance that industrial accidents at our Group's production facility, whether due to malfunctions of such tools, equipment or machinery or other reasons, will not occur in the future. In such an event, our Group may be held liable for the personal injuries or deaths and subject to monetary losses, fines or penalties or other forms of legal liability as well as business interruptions caused by equipment shutdowns for government investigation or implementation or imposition of safety measures. For example, work safety laws imposed by the PRC government authorities could impose compliance costs or reduce the efficiency of our Group's operations, thereby materially and adversely affecting our business, results of operations and financial condition.

**We rely on independent logistic service providers and delivery agents for the transportation of our products.**

During the Track Record Period, our Group engaged independent third party logistic service providers for the transportation of our products from the production facility to the destinations specified by customers. The selection of logistic service providers was typically based on quality of services, which is assessed in accordance with timely provision of quotation, professionalism, safety, and capability. We do not maintain our own transportation team in respect of the delivery of our export sales to the shipping ports. Should the logistic service providers and delivery agents fail to comply with the terms of our contracts with them or any regulatory requirements, they may fail to transport or deliver our products to our customers in a timely manner or at all. In particular, beauty products may deteriorate if subject to extreme temperatures and not treated properly during the transportation process. Upon any failure by our existing logistic service providers or delivery agents to discharge their delivery obligations, we may be unable to find other suitable replacements on a timely basis and our management may need to devote their time in managing customer complaints or resolving related disputes, and our business, financial performance and operations may thereby be adversely and materially affected.

**We may not have adequate insurance coverage to protect us against certain risks.**

We do not maintain insurance on our manufacturing assets or inventory. In addition, our insurance coverage may not be sufficient to cover damages or loss of our products during the transportation or delivery process. As a result, we may have to pay out of our own resources for any uninsured financial or other losses, damages and liabilities, litigation or business disruption. The occurrence of certain incidents, including earthquake, fire, severe weather, war, floods, power outages, terrorist attacks or other disruptive events and the consequences, damages and disruptions

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resulting from such events may not be fully covered by our insurance policies. If our business operations were disrupted or interrupted for a substantial period of time, we could incur costs and losses that could materially and adversely affect our business, financial condition and results of operations.

### **Unforeseen circumstances may negatively affect our Group's business operations and financial position**

We may be susceptible to any unforeseen circumstances that may adversely affect the ordinary operation of our business for an extended period of time. Such unforeseen circumstances may include events that may prevent us from performing our usual course of business for an extended period of time, such as outbreaks of contagious diseases including SARS, avian flu, swine flu or similar epidemics, tropical cyclone warning signal No. 8 or above, "Black" rainstorm warning, floods and protests that affect access to our office. Furthermore, black swan events such as Black Monday and acts of terrorism may cause severe negative effect on our Group's business operations as well as our financial performance.

### **We may be unable to efficiently manage our inventory risks**

We only maintain a level of inventory just enough for our orders as we generally source raw materials and supplies and conduct production only upon receipt of customers' orders and finished goods are only temporarily stored at our warehouse prior to delivery to our customers. During the Track Record Period, we mainly focused our selling effort in seasonal gift sets and standalone beauty products targeted for holiday and festive seasons and hence we generally were able to keep a low level of inventory based on the just-in-time inventory strategy. However, as we plan to develop and sell more non-seasonal beauty products not only for the holiday and festive seasons but all year round, we expect that our inventory level of raw materials and supplies may increase in order to cope with repeated orders to be received from time to time and this will make it more challenging for us to effectively manage our inventory. In the event that our customers do not place orders with us, we may be unable to consume the raw materials and supplies in stock. If we fail to manage our inventory effectively, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values and significant inventory write-downs or write-offs. High inventory levels may also require us to commit substantial capital resources, preventing us from using that capital for other important purposes. Any of the above may materially and adversely affect our results of operations and financial condition.

### **We rely on Baoma for the lease of office, production facilities and warehouses and the supply of beauty bags**

We lease our office, production facilities and warehouses from Baoma, a connected person of our Company. The lease terms are for a period commencing from the relevant commencement date up to the 10th anniversary of the Listing Date or of 1 November 2017, as the case may be. In addition, all of our beauty bags are produced by and sourced from external manufacturers and Baoma was our largest supplier during the Track Record Period. In this connection, we had entered into a purchase framework agreement with Baoma for a period of three years commencing from the

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Listing Date and which does not have a termination clause. For details, please refer to “Connected Transactions — Non-exempt continuing connected transactions”. Hence, we will continue to rely on Baoma in the operation of our business and we expect that the amounts of such continuing connected transactions will increase after the Listing. Any unexpected adverse events relating to Baoma may have a material and negative impact on our business, financial position and result of operations.

### **RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC**

Substantial amount of our business assets and operations are in the PRC. During the Track Record Period, our beauty product production lines were located at the Cosbe Facility in Shantou, the PRC. Accordingly, our results of operations, financial position, performance and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC, including the following risks:

**The economic, political and social conditions in the PRC, as well as government policies, laws and regulations, could affect our business, financial condition and results of operations.**

Substantial amount of our business assets and operations are in the PRC. During the Track Record Period, our beauty product production lines were located at the Cosbe Facility in Shantou, the PRC. Accordingly, our results of operations and prospects are, to a significant degree, subject to economic, political and legal developments in the PRC. The PRC’s economy differs from the economies of most developed countries in many respects, including the extent of government involvement, its level of development, its growth rate and its control over foreign exchange. The PRC economy has been undergoing transformation. In recent years, the PRC government has implemented measures emphasising market forces for economic reform, the reduction of State ownership of productive assets and the establishment of sound corporate governance in business enterprises. The PRC government continues to play a significant role in regulating industrial development. It also exercises significant control over the PRC’s economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. All of these factors could affect the economic conditions in the PRC and, in turn, our business.

While the economy of the PRC has experienced significant growth in the past 20 years, growth has been uneven across both geographic regions and the various sectors of the economy and that growth may not continue. We cannot predict whether our results of operations and financial condition could be materially and adversely affected by changes in economic conditions in the PRC, or the PRC governmental monetary policies, interest rate policies, tax regulations or other policies and regulations.

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### **Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.**

Our operating subsidiaries are incorporated under the laws of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, such as foreign investment, corporate organisation and governance, commerce, taxation and trade. As substantially all of our businesses are conducted in the PRC, our operations are principally governed by PRC laws and regulations. However, since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us.

Furthermore, intellectual property rights and confidentiality protections in the PRC may not be as effective as in the U.S. or other countries. Given that the current legal system in the PRC provides insufficient protection against infringement of intellectual property rights and the PRC market is very capable of design replications, we may be unable to enjoy the fair return for our originality and our input in the development of new products.

In addition, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of our resources and management attention.

### **We may experience a decrease or discontinuation of export VAT tax refund towards exported goods.**

Export of goods from PRC is entitled to a refund of VAT ranging from 0%–17%. This is related to raw materials and supplies used for our production in the PRC, of which products were subsequently exported to overseas countries. During the Track Record Period, we obtained export VAT tax refund from the PRC tax authority at the rate of 13% for our products exported overseas from the PRC, which was determined on a prescribed formula. There is no assurance that we will continue to obtain similar tax refund from the PRC tax authority and that there will be no changes to the relevant PRC governmental policies on tax refund that will materially affect our business and financial position. In the event that there is any decrease or discontinuation of export VAT tax refund, we would be subject to increase in tax liability and our business and results of operations would be adversely affected.



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**PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Share Offer to make loans or additional capital contributions to our PRC subsidiary.**

In utilising the proceeds from the Share Offer or any further offering, as an offshore holding company of our PRC subsidiary, we may make loans to our PRC subsidiary, or we may make additional capital contributions to our PRC subsidiary. Any loans to our PRC subsidiary are subject to PRC regulations and approvals. For example, loans by us to our wholly-owned subsidiary in the PRC to finance its activities cannot exceed statutory limits and must be registered with the SAFE or its local counterpart. We may also decide to finance our PRC subsidiary through capital contributions. These capital contributions must be approved by the MOFCOM or its local counterparts. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our subsidiary. If we fail to receive such registrations or approvals, our ability to use the proceeds of the Share Offer and to capitalise our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

**We are a holding company and we may rely on dividend payments from our subsidiaries for funding, which are subject to restrictions under PRC laws.**

We are a holding company incorporated in the Cayman Islands, and we operate our core businesses through our subsidiary in the PRC. Therefore, the availability of funds for us to pay dividends to our Shareholders and to service our indebtedness may depend upon dividends from the PRC subsidiary. If our PRC subsidiary incur debt or losses, its ability to pay dividends or other distributions to us may be impaired. As a result, our ability to pay dividends and to repay our indebtedness will be restricted. PRC laws require that dividends be paid only out of the after-tax profit of our PRC subsidiary calculated according to PRC accounting principles, which differ in several aspects from generally accepted accounting principles in other jurisdictions. PRC laws also require enterprises established in the PRC to set aside part of their after-tax profits 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 pay dividends to us. These restrictions on the availability of our funding may impact our ability to pay dividends to our Shareholders and to service our indebtedness.

**We may be deemed a PRC “resident enterprise” under the EIT Law and be subject to PRC taxation on our worldwide income.**

The EIT Law and its implementation regulations issued by the State Council defines the term “de facto management bodies” as “bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises”. Under the EIT Law, a foreign enterprise whose “de facto management bodies” are located in the PRC is considered a “resident enterprise” and will be subject to an uniform 25% enterprise income tax rate on its global income. In April 2009, the SAT further specified certain criteria for the determination of what constitutes “de facto management bodies” for foreign enterprises which are controlled by

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PRC enterprises. If all of these criteria are met, the relevant foreign enterprise controlled by a PRC enterprise will be deemed to have its “de facto management bodies” located in the PRC and therefore be considered a PRC resident enterprise. These criteria comprise whether: (i) the enterprise’s day-to-day operational management is primarily exercised in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by organisations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in the PRC; and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC.

We are currently not treated as a PRC resident enterprise by the relevant tax authorities in the PRC. Since our production facility, the daily management of our operation, assets and our management are all based in the PRC, we cannot give any assurance that we will not be considered as a “resident enterprise” under the EIT Law and not be subject to the enterprise income tax rate of 25% on our global income. If we are subsequently regarded as a PRC resident enterprise by the relevant tax authorities, our financial condition and results of operation may therefore be adversely affected.

**You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC against us, our management or the experts named in this prospectus.**

We conduct all of our operations in the PRC and all of our assets are located in the PRC. As a result, it may not be possible to effect service of legal processes outside the PRC or Hong Kong (as the case may be) upon some of our Directors and senior executive officers with respect to matters arising under applicable securities laws. Moreover, our PRC Legal Advisers have advised that the PRC has not entered into treaties with the U.S. or a number of other countries providing for the reciprocal recognition and enforcement of judgments of foreign courts with respect to civil and commercial matters. In addition, according to the PRC Civil Procedures Law\* (中華人民共和國民事訴訟法), courts in the PRC will not enforce a foreign judgment if they decide that the judgment violates the basic principles of PRC law or national sovereignty, security or public interest. Therefore, it may be difficult for you to enforce against us and/or our management in the PRC any judgment obtained from non-PRC courts.

**The PRC economy may experience inflationary pressure, which may lead to an increase in interest rates and a slowdown in economic growth.**

In response to concerns regarding PRC’s high rate of growth in industrial production, bank credit, fixed investment and money supply, the PRC government has taken measures to slow down economic growth to a more manageable level. Among the measures that the PRC government has taken are restrictions on bank loans in certain sectors. These measures have historically contributed to a slowdown in economic growth in the PRC and a reduction in demand for consumer goods. These measures and any additional measures, including a possible increase in interest rates, could contribute to a further slowdown in the economy of the PRC.

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## RISK FACTORS

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**An outbreak of any severe communicable disease in the PRC may have an adverse effect on the economies of certain countries and may adversely affect our results of operations.**

The outbreak of any severe communicable disease in the PRC could have a material adverse effect on the overall business sentiment and environment in the PRC, which in turn may have a material adverse effect on domestic consumption and overall GDP growth. As a certain proportion of our revenue is currently derived from our PRC operations, any contraction or slowdown in the growth of domestic consumption or slowdown in the GDP growth of the PRC may materially and adversely affect our business, prospects, financial condition and results of operations. In addition, if our employees are affected by any severe communicable disease, we may be required to close our facilities or institute other measures to prevent the spread of the disease, which may disrupt our operations. The spread of any severe communicable disease in the PRC may also affect the operations of our customers and suppliers, which may lead to reduced orders or scarcity of raw materials and supplies.

**We may be subject to liability under, and may make substantial future expenditures to comply with, environmental laws and regulations.**

We are subject to laws, rules and regulations concerning the discharge of effluent water and solid waste during our manufacturing processes. We cannot assure you that we will be able to comply fully at all times with applicable environmental regulations. Any violation of these regulations may result in substantial fines, criminal sanctions, revocations of operating permits, shutdown of our facilities and obligations to take corrective measures. Furthermore, the cost of complying with current and future environmental protection laws, rules and regulations and the liabilities which may potentially arise from the discharge of effluent water and solid waste may materially increase our costs as well as materially decrease our profit. As part of our factory expansion plan, we expect to incur certain costs in relation to environmental protection, further details are set out in “Future Plans and Use of Proceeds — Business strategies and future plans”.

Certain environmental laws impose liability, sometimes regardless of fault, for investigating or cleaning up contamination on or emanating from our currently or formerly owned, leased or operated property, as well as for damages to property or natural resources and for personal injury arising out of such contamination. These environmental laws also assess liability on persons who arrange for hazardous substances to be sent to third-party disposal or treatment facilities when such facilities are found to be contaminated.

Moreover, governments, including the PRC government, may take steps towards the adoption of more stringent environmental regulations. Due to the possibility of unanticipated regulatory or other developments, the amount and timing of future environmental expenditures may vary substantially from those currently anticipated. If there is any change in the environmental regulations, we may need to incur substantial capital expenditures to install, replace, upgrade or supplement our pollution control equipment, take additional protective and other measures against potential contamination or injury caused by hazardous materials, or make operational changes to limit any adverse impact or potential adverse impact on the environment. If these costs become prohibitively expensive, we may be forced to cease certain of our businesses. In addition,

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## RISK FACTORS

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environmental liability insurance is not commonly available in the PRC, where we conduct most of our operations. Consequently, any significant environmental liability claims successfully brought against us could have a material adverse effect on our business, financial condition and results of operations.

**We are subject to risks associated with changes in PRC laws and regulations on manufacturing of beauty products, including those relating to environmental protection, and any failure to control associated costs could harm our business.**

We are subject to various PRC laws and regulations relating to the manufacturing of beauty products, including those relating to environmental protection. For details, refer to “Regulatory Overview — Overview of the PRC laws and regulations”. Given the complexity and uncertainties of the relevant PRC laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require significant amount of financial resources and attention of our management. In addition, the relevant environmental protection administration authorities in the PRC may impose more stringent standards in the future which could increase our operational costs to meet such higher standards. There is no assurance that the PRC government will not impose more stringent laws and regulations applicable to the manufacturing of beauty products and compliance may require additional or significant investment in upgrading our facilities and employing additional staffs. Any failure to control associated costs could adversely affect our business, results of operations and financial position.

### **RISKS RELATING TO THE SHARE OFFER**

**There has been no prior public market for our Shares and there can be no assurance that an active market would develop.**

Prior to the Share Offer, there has been no public market for our Shares. The initial Offer Price range of the Offer Shares was the result of negotiations among us and SCS (for itself and on behalf of the other Underwriters) and the Offer Price may differ significantly from the market price for our Shares following the Share Offer. While we have applied for listing of and permission to deal in our Shares on the Stock Exchange, there is no assurance that the Share Offer will result in the development of an active, liquid public trading market for our Shares. Factors such as variations in our revenue, earnings and cash flows or any other developments of us may affect the volume and price at which our Shares will be traded.

**The liquidity, trading volume and market price of our Shares following the Share Offer may be volatile.**

The price at which our Shares will trade after the Share Offer will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;

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## RISK FACTORS

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- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- new investments, acquisitions or alliances in the future;
- addition or departure of our key personnel;
- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- actions taken by our competitors;
- general market sentiment regarding the beauty products industry;
- changes in laws and regulations;
- our inability to compete effectively in the market; and
- political, economic, financial and social developments in Hong Kong and worldwide.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. Such volatility has not always been directly related to the performance of the specific companies whose shares are traded. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of their Shares regardless of our operating performance or prospects.

The Offer Price of our Offer Shares is higher than the net tangible book value per Share immediately prior to the Share Offer. Therefore, subscribers of our Offer Shares in the Share Offer will experience an immediate dilution in pro forma adjusted net tangible assets value and existing Shareholders will receive an increase in the pro forma adjusted net tangible assets per Share of their Shares. Please see "Unaudited Pro Forma Financial Information" in Appendix II to this prospectus for details. If we issue additional Shares in the future, subscribers of our Offer Shares may experience further dilution.

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## RISK FACTORS

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**Substantial future sales or the expectation of substantial sales of our Shares in the public market could cause the price of our Shares to decline.**

Sales of substantial amounts of Shares in the public market after the completion of the Share Offer, or the perception that these sales could occur, could adversely affect the market price of our Shares. There will be 400,000,000 issued Shares immediately following the Share Offer (assuming that none of the options that may be granted under the Share Option Scheme is exercised). Our Controlling Shareholders agreed that any Shares held by them will be subject to a lock-up after the Listing. See “Underwriting — Underwriting arrangements and expenses — Undertakings pursuant to the Public Offer Underwriting Agreement — Undertakings by our Controlling Shareholders” and “Underwriting — Undertakings to the Stock Exchange under the GEM Listing Rules — Undertakings by our Controlling Shareholders” for more information. However, such Shares will be freely tradable after the expiry of the relevant lock-up period. Shares which are not subject to a lock-up arrangement represent 25.0% of the total issued share capital immediately following the Share Offer and the Capitalisation Issue and will be freely tradable immediately following the Share Offer and the Capitalisation Issue assuming that none of the options that may be granted under the Share Option Scheme is exercised.

**Since there will be a gap of several days between pricing and trading of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.**

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

**Prior dividend distributions are not an indication of our future dividend policy.**

Takbo declared and distributed a dividend of approximately HK\$8.9 million to its then shareholders during the Track Record Period. Any future dividend declaration and distribution by our Company will be at the discretion of our Directors and may depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our Articles of Association, including the approvals from our Shareholders and our Directors, if required. In addition, our future dividend payments will depend upon the availability of dividends received from our subsidiaries. As a result of the above, we cannot assure you that we will make any dividend payments on our Shares in the future with reference to our historical dividends. For further details of the dividend policy of our Company, see “Financial Information — Dividend”.

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## RISK FACTORS

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We have significant discretion as to how we will use the net proceeds of the Share Offer, and you may not necessarily agree with how we use them.

Our management may spend the net proceeds from the Share Offer in ways you may not agree with or that do not yield a favourable return to our Shareholders. See “Future Plans and Use of Proceeds — Use of proceeds” for more information. However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from the Share Offer.

**We cannot guarantee the accuracy of facts and other statistics with respect to certain information obtained from the F&S Report contained in this prospectus.**

Certain facts and statistics in this prospectus, including but not limited to information and statistics relating to the beauty product industry, are based on the F&S Report or are derived from various publicly available publications, which our Directors believe to be reliable.

We cannot, however, guarantee the quality or reliability of such facts and statistics. Although we have taken reasonable care to ensure that the facts and statistics presented are accurately extracted and reproduced from such publications and the F&S Report, they have not been independently verified by us, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners, the Co-Manager, the Underwriters or any other party involved in the Share Offer and no representation is given as to its accuracy. We therefore make no representation as to the accuracy of such facts and statistics which may not be consistent with other information compiled by other sources and prospective investors should not place undue reliance on any facts and statistics derived from public sources or the F&S Report contained in this prospectus.

**Shareholders and investors could face difficulties in protecting their interests because our Company was incorporated under the laws of the Cayman Islands and these laws could provide different protections to minority Shareholders than the laws of Hong Kong.**

Our corporate affairs are governed by the Memorandum and the Articles and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders could differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. Such differences could mean that the minority Shareholders could have different protections than they would have under the laws of Hong Kong.

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

This prospectus contains certain statements and information that are forward-looking and uses forward-looking terminology such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “forecast”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would”, “wish” and similar expressions. You are cautioned that reliance on any forward-

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## RISK FACTORS

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looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set out in this section. Subject to the requirements of the GEM Listing Rules, we do not intend to update or otherwise revise the forward-looking statements in this prospectus to the public, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

**We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the Share Offer.**

There may be, subsequent to the date of this prospectus but prior to the completion of the Share Offer, press and media coverage regarding us and the Share Offer, which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Share Offer. We have not authorised the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

You should rely solely upon the information contained in this prospectus and any formal announcements made by us in Hong Kong in making your investment decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the Share Offer or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our Company. By applying to subscribe for our Shares in the Share Offer, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Application Forms.



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## **WAIVERS FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES**

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### **WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES**

We have entered into, and are expected to continue to carry on, after Listing, certain transactions, which would constitute continuing connected transactions of our Company under the GEM Listing Rules upon Listing. We have applied to the Stock Exchange, and the Stock Exchange has granted, waivers from strict compliance with the requirements set out in Chapter 20 of the GEM Listing Rules in respect of such transactions. Further details of such continuing connected transactions and waiver are set out in “Connected Transactions”.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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### DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information to the public with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

### UNDERWRITING

This prospectus is published solely in connection with the Share Offer, comprising the Placing and the Public Offer. Details of the structure of the Share Offer, including conditions of the Share Offer, are set out in “Structure and Conditions of the Share Offer”. The Listing is sponsored by the Sole Sponsor and managed by the Joint Lead Managers. The Public Offer will be fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement and is subject to the agreement to the Offer Price between our Company and SCS (for itself and on behalf of the other Underwriters). The Placing will be fully underwritten by the Placing Underwriters under the terms of the Placing Underwriting Agreement. For further details about the Underwriters and the Underwriting Agreements, please refer to “Underwriting — Underwriting arrangements and expenses”.

### DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by SCS (for itself and on behalf of the other Underwriters) and our Company on the Price Determination Date, or such later date or time as may be agreed by SCS (for itself and on behalf of the other Underwriters) and our Company. The Offer Price is currently expected to be not more than HK\$0.69 per Offer Share and not less than HK\$0.65 per Offer Share. SCS (for itself and on behalf of the other Underwriters) may reduce the indicative Offer Price range stated in this prospectus at any time prior to the Price Determination Date. In such case, a notice of the reduction of the indicative Offer Price range will be published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.takbogroup.com](http://www.takbogroup.com).

If SCS (for itself and on behalf of the other Underwriters) and our Company are unable to reach an agreement on the Offer Price on the Price Determination Date, or such later date or time as may be agreed between SCS (for itself and on behalf of the other Underwriters) and our Company, the Share Offer will not proceed.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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### **SELLING RESTRICTIONS OF OFFER SHARES**

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

Each person acquiring the Offer Shares will be required to confirm, or by his/her acquisition of the Offer Shares be deemed to confirm, that he/she is aware of the restrictions on the offer of the Offer Shares described in this prospectus and/or the related Application Forms and that he/she is not acquiring, and has not been offered any such Offer Shares in circumstance that contravenes any such restrictions.

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

### **PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES**

The procedure for application for the Public Offer Shares is set out in “How to Apply for the Public Offer Shares” and the relevant Application Forms.

### **STRUCTURE AND CONDITIONS OF THE SHARE OFFER**

Details of the structure and conditions of the Share Offer are set out in “Structure and Conditions of the Share Offer”.

### **APPLICATION FOR LISTING ON GEM**

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue and the Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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Under Section 44B(1) of the Companies (WUMP) Ordinance, if the permission for the Shares to be listed on GEM pursuant to this prospectus has been refused before the expiration of three weeks from the date of the closing of the Share Offer or such longer period not exceeding six weeks as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the “minimum prescribed percentage” of 25% of the issued share capital of our Company in the hands of the public (as defined in the GEM Listing Rules).

No part of the Shares or loan capital of our Company is listed, traded or dealt in on any other stock exchange. At present, our Company is not seeking or proposing to seek a listing of, or permission to deal in, any part of the Shares or loan capital on any other stock exchange.

### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date, or on any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### **DEALINGS AND SETTLEMENT**

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. (Hong Kong time) on or about Friday, 27 October 2017.

Shares will be traded in board lots of 5,000 Shares each and are freely transferable. The GEM stock code for the Shares is 8436.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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### HONG KONG SHARE REGISTER AND STAMP DUTY

All of the Shares will be registered in our Company's branch register of members to be maintained in Hong Kong by the branch share registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. Only Shares registered on our Company's branch register of members maintained in Hong Kong may be traded on GEM.

Our Company's principal register of members will be maintained by the principal share registrar and transfer office, Conyers Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

Dealings in the Shares registered in the branch register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by our Company, dividends payable in HKD in respect of the Shares will be paid to the Shareholders listed on our Company's Hong Kong branch register of members to be maintained in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder or if joint Shareholders, to the first-named therein in accordance with the Articles.

### PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to taxation implications of the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to, the Offer Shares. None of our Company, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives (where applicable) or any other persons involved in the Share Offer accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to, the Offer Shares.

### LANGUAGE

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

### OTHER

Any discrepancies in any table or chart between the totals and the sums of the amounts listed therein are due to rounding.

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors:</i>		
Mr. Or Naam (柯柵先生)	House 62, The Giverny Man Kei Toi, Pak Sha Wan Sai Kung, New Territories Hong Kong	Chinese
Ms. Chan Hoi Yan Polly (陳凱欣女士)	House 62, The Giverny Man Kei Toi, Pak Sha Wan Sai Kung, New Territories Hong Kong	Chinese
Mr. Or Huen (柯烜先生)	Flat A, 8/F, Tower 3 Stars By the Harbour 7 Hung Luen Road Hung Hom, Kowloon Hong Kong	Chinese
<i>Independent non-executive Directors:</i>		
Mr. Tan Chong Huat (陳聰發先生)	3K Hillcrest Road, Singapore 286669	Singaporean
Mr. Sung Chi Keung (宋治強先生)	Flat E, 10/F, Block 4 398 Castle Peak Road Discovery Park Tsuen Wan, New Territories Hong Kong	Chinese
Mr. Wong, Irving Holmes Weng Hoong	Room 903, 118 Shimen Yi Lu Jing'an District, Shanghai, PRC	Malaysian

Please refer to “Directors, Senior Management and Employees — Directors” for further information on our Directors.

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### PARTIES INVOLVED IN THE SHARE OFFER

#### Sole Sponsor

#### **Lego Corporate Finance Limited**

*A corporation licenced to carry out Type 6 (advising on corporate finance) regulated activity under the SFO*  
Room 1601, 16/F, China Building  
29 Queen's Road Central  
Central, Hong Kong

#### Joint Bookrunners and Joint Lead Managers

#### **Supreme China Securities Limited**

*A corporation licenced to carry out Type 1 (dealing in securities) regulated activity under the SFO*  
Suite 2701-2, 27/F., Everbright Centre  
108 Gloucester Road  
Wanchai, Hong Kong

#### **Infast Brokerage Limited**

*A corporation licenced to carry out Type 1 (dealing in securities) regulated activity under the SFO*  
18th Floor, No. 8 Lyndhurst Terrace  
Central, Hong Kong

#### **Lego Securities Limited**

*A corporation licenced to carry out Type 1 (dealing in securities) regulated activity under the SFO*  
Room 804, 8th Floor, Jubilee Centre  
46 Gloucester Road  
Wanchai, Hong Kong

#### Co-Manager

#### **Pacific Foundation Securities Limited**

*A corporation licenced to carry out Type 1 (dealing in securities) and Type 9 (asset management) regulated activities under the SFO*  
11th Floor, New World Tower II  
16-18 Queen's Road Central  
Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### Legal advisers to our Company

*As to Hong Kong law:*

**Robertsons**

57th Floor, The Center  
99 Queen's Road Central  
Hong Kong

*As to PRC law:*

**Shujin Law Firm**

12/F, Taiping Finance Tower  
Yitian Road 6001  
Futian District, Shenzhen  
PRC

*As to Cayman Islands law:*

**Conyers Dill & Pearman**

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman, KY1-1111  
Cayman Islands

*As to U.S. law:*

**Alston & Bird LLP**

One Atlantic Center  
1201 West Peachtree Street  
Suite 4900  
Atlanta, GA 30309-3424  
United States

*As to UAE law:*

**Lutfi & Co**

9th Floor, O-14 Tower  
Business Bay  
Sheikh Zayed Road  
Dubai  
UAE  
P.O. Box 8812



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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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<b>Legal advisers to the Sole Sponsor and the Underwriters</b>	<i>As to Hong Kong law:</i> <b>Luk &amp; Partners in Association with Morgan, Lewis &amp; Bockius</b> Unit 2001, Level 20 One International Finance Centre 1 Harbour View Street Central, Hong Kong  <i>As to PRC law:</i> <b>Global Law Office</b> 15/F, Tower 1 China Central Place No. 81 Jianguo Road Chaoyang District Beijing, PRC
<b>Auditor and reporting accountant</b>	<b>PricewaterhouseCoopers</b> <i>Certified Public Accountants</i> 22nd Floor, Prince's Building Central, Hong Kong
<b>Independent industry consultant</b>	<b>Frost &amp; Sullivan International Limited</b> Suite 1706, One Exchange Square 8 Connaught Place Central, Hong Kong
<b>Receiving bank</b>	<b>The Bank of East Asia, Limited</b> 10 Des Voeux Road Central Central, Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Principal place of business in Hong Kong</b>	Room B, 35th Floor, EGL Tower 83 Hung To Road Kwun Tong, Kowloon Hong Kong
<b>Company's website</b>	<b><u><a href="http://www.takbogroup.com">www.takbogroup.com</a></u></b> <i>(information on this website does not form part of this prospectus)</i>
<b>Company secretary</b>	Mr. Ng Chit Sing, <i>HKICS, ICSA</i> Rooms 802–804, 8/F Kin Wing Commercial Building 24–30 Kin Wing Street Tuen Mun, New Territories, Hong Kong
<b>Authorised representatives (for the purpose of the GEM Listing Rules)</b>	Mr. Or Naam House 62, The Giverny Man Kei Toi, Pak Sha Wan Sai Kung, New Territories Hong Kong  Ms. Chan Hoi Yan Polly House 62, The Giverny Man Kei Toi, Pak Sha Wan Sai Kung, New Territories Hong Kong
<b>Compliance officer</b>	Ms. Chan Hoi Yan Polly
<b>Compliance adviser</b>	Lego Corporate Finance Limited
<b>Audit committee</b>	Mr. Sung Chi Keung ( <i>Chairman</i> ) Mr. Tan Chong Huat Mr. Wong, Irving Holmes Weng Hoong

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## CORPORATE INFORMATION

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<b>Remuneration committee</b>	Mr. Tan Chong Huat ( <i>Chairman</i> ) Mr. Sung Chi Keung Mr. Or Naam
<b>Nomination committee</b>	Mr. Wong, Irving Holmes Weng Hoong ( <i>Chairman</i> ) Mr. Sung Chi Keung Mr. Or Huen
<b>Principal share registrar and transfer office in the Cayman Islands</b>	<b>Conyers Trust Company (Cayman) Limited</b> Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Hong Kong branch share registrar and transfer office</b>	<b>Tricor Investor Services Limited</b> Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal bankers</b>	<b>Bank of China (Hong Kong) Limited</b> Bank of China Tower 1 Garden Road Hong Kong  <b>Nanyang Commercial Bank Limited</b> 151 Des Voeux Road Central Central Hong Kong

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## INDUSTRY OVERVIEW

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*The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the market research report prepared by F&S, which was commissioned by us. We believe that the information has been derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. The information has not been independently verified by us, the Sole Sponsor or any of our or their respective directors, officers or representatives or any other person involved in the Share Offer nor is any representation given as to its accuracy or completeness. The information and statistics contained in this section may not be consistent with other information and statistics compiled within or outside of China.*

### REPORT COMMISSIONED FROM F&S

We commissioned F&S, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on, the U.S. and the PRC beauty products markets for the period from 2011 to 2021E. The report prepared by F&S for us is referred to in this prospectus as the F&S Report. The agreed fee for the preparation of the F&S Report is HK\$400,000, which we believe reflects market rates for reports of this type. The payment of such amount was not conditional on our Company's successful Listing or on the results of the F&S Report. The F&S Report is independent from our influence. Founded in 1961, F&S has 40 offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists globally. It conducts industry research among other services. F&S has been covering the Chinese market from its offices in the PRC since the 1990s. Its industry coverage in the PRC includes manufacturing, consumer products and material, among others.

We have included certain information from the F&S Report in this prospectus because we believe this information facilitates an understanding of the U.S. and the PRC beauty products markets for the prospective investors. The F&S Report includes information on the U.S. and the PRC beauty products markets as well as other economic data, which have been quoted in this prospectus. F&S's independent research consists of both primary and secondary research obtained from various sources in respect of the U.S. and the PRC beauty products markets. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on F&S's own research database. Projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. On this basis, our Directors are satisfied that the disclosure of future projections and industry data in this section is not biased or misleading. We believe that the sources of this information are appropriate sources for the information and we have taken reasonable care in extracting and reproducing this information. We have no reason to believe that this information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect.

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## INDUSTRY OVERVIEW

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Our Directors, after making reasonable enquiries, confirm that we are not aware of any adverse change of the market information since the date of the F&S Report which may qualify, contradict or have an impact on the information in this section.

### OVERVIEW OF U.S. AND PRC MACRO ECONOMY

#### Overview of U.S. Macro Economy

As the largest economy entity in the world, U.S. has experienced a steady growth in its economy over the past few years. The nominal GDP of U.S. increased from US\$15.5 trillion to US\$18.6 trillion during 2011 and 2016, growing at a CAGR of 3.7%. According to the forecast of the International Monetary Fund (“IMF”), the economy of U.S. will maintain its stable growth in the next five years.

In line with steadily growing macro economy, income level and consumption power of U.S. population have increased continuously. The per capita disposable income increased from US\$37.8 thousand in 2011 to US\$43.0 thousand in 2016, representing a CAGR of 2.6%. At the same time, per capita consumption expenditure increased at a CAGR of 2.8% during the same period driven by growing consumption demand.

Continuously growing macro economy has ensured stable development environment of vertical industries, and the U.S. retail market has maintained moderate growth under the circumstance. Growing disposable income and consumption expenditure also assist the growth of the retail sales in U.S. It is expected that total retail sales will continue to grow and increase to US\$2,081.5 billion in 2021, up from US\$1,711.4 billion in 2016.

#### Overview of PRC Macro Economy

Driven by a series of economic stimulus policies including Revitalisation Plans of Ten Key Industries and “One Belt And One Road”, China’s GDP maintained relatively fast growth with a CAGR of 9.0% between 2011 and 2016. While due to export slowdown and the transition of consumption pattern and the upgrade of economy, China’s GDP is expected to sustain a long-term growth with a CAGR of 7.9% in the next five years.

Driven by the continuous growth of Chinese economy, the per capita annual disposable income has increased continuously in recent years. According to data based on U.S. dollar issued by IMF, from 2011 to 2016, the per capita annual disposable income increased from US\$2,300 to US\$3,800, representing a CAGR of 10.3%. The strong growth of per capita annual disposable income is expected to continue in the future, and the amount is likely to reach US\$5,700 in 2021. Along with the increase of the per capita disposable income, China’s per capita consumption spending has witnessed rapid growth over the last five years.

Chinese increasing urbanisation and the growing per capita disposable income have contributed to the rapid growth in demand for consumer products. Total retail sales of consumer goods in China amounted to US\$5.3 trillion in 2016, up from US\$2.9 trillion in 2011, representing a CAGR of 12.6%, according to data based on U.S. dollar issued by National Bureau of Statistics of China.

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## INDUSTRY OVERVIEW

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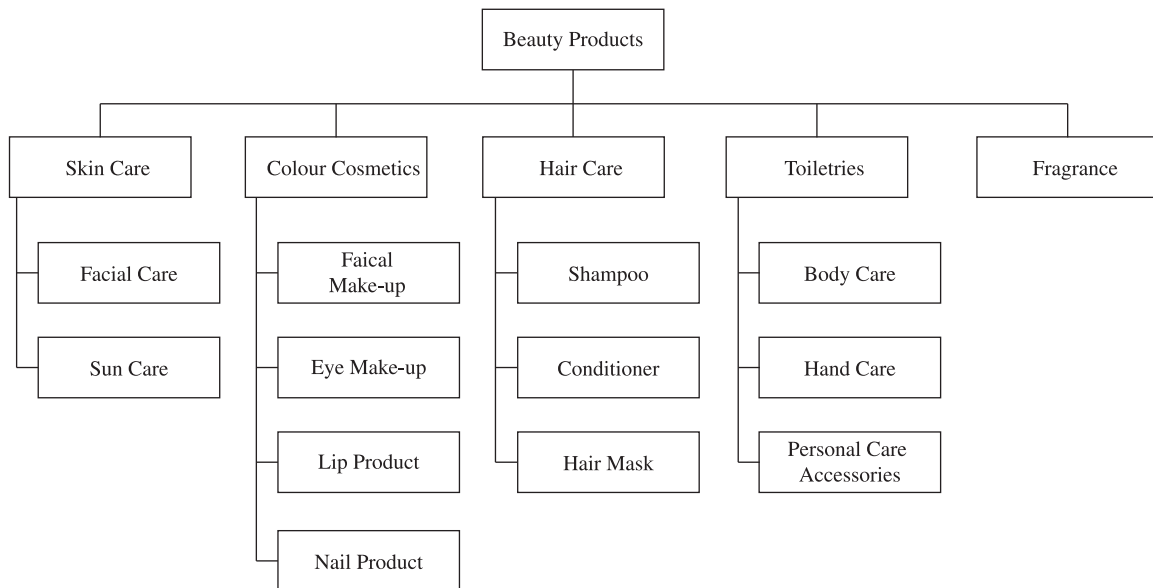
### OVERVIEW OF BEAUTY PRODUCTS RETAIL MARKET

#### Definition and Classification

Beauty products in this section of this prospectus refer to skin care and make up products, as well as accessories that enhance appearance of users. There are five major categories of beauty products, comprising skin care, colour cosmetics, hair care, toiletries, and fragrance.

By product, skin care, colour cosmetics, hair care and toiletries can be further divided into sub-segments. Personal care accessories, which is one of the sub-segment of toiletries, contain ancillary products and small tools that help to apply or use other toiletries and beauty products, such as facial puff, make up brushes, beauty bags, and so on.

The diagram below sets forth the major categories and sub-segments of beauty products:



Source: F&S

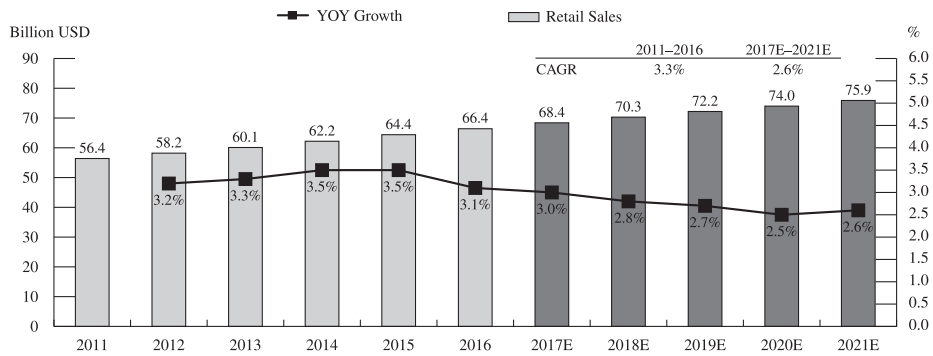
#### U.S. Beauty Products Retail Market

With the advancement of technology, beauty product manufacturers continuously pursue innovative formula and introduce improved products to the market, aiming to cater the ever-changing needs of customers. Driven by beauty products manufacturers' effort in R&D and the recovery of economies in the U.S., the retail sales value of beauty products in the U.S., comprising retail sales value of both standalone items and gift sets, has experienced a moderate growth from US\$56.4 billion in 2011 to US\$66.4 billion in 2016, representing a CAGR of 3.3%. The sales value of beauty products in the U.S. is expected to continue growing in the next five years at a CAGR of 2.6% from 2017 to 2021 and the total sales value will amount to US\$75.9 billion in 2021. The slowdown in growth rate and CAGR from 2017 to 2021, compared with the past five years, is mainly due to the reduced growth of overall retailing industry, as well as the increasing maturity of the beauty products markets in the U.S. Nonetheless, there has not been any material adverse

## INDUSTRY OVERVIEW

change and it is not expected to have any material adverse change in the business environment of the U.S. beauty products retail industry up to 2021 and the expected reduced growth rate by no means represents a downturn of the industry.

### Retail Sales Value of Beauty Products (U.S.), 2011–2021E



Source: F&S

### Retail Sales Value Breakdown by Product Category (U.S.), 2011, 2016, 2021E

Percentage in total beauty product retail sales value	2011	2016	2021E
Skin care	28.4%	28.3%	27.5%
Colour cosmetics	21.6%	24.2%	26.7%
Hair care	20.4%	19.8%	18.9%
Toiletries	18.3%	17.0%	16.6%
Fragrance	11.3%	10.7%	10.3%

CAGR	Skin care	Colour cosmetics	Hair care	Toiletries	Fragrance
2011–2016	3.3%	5.7%	2.6%	1.9%	2.1%
2017E–2021E	2.0%	4.8%	1.6%	1.9%	2.0%

Source: F&S

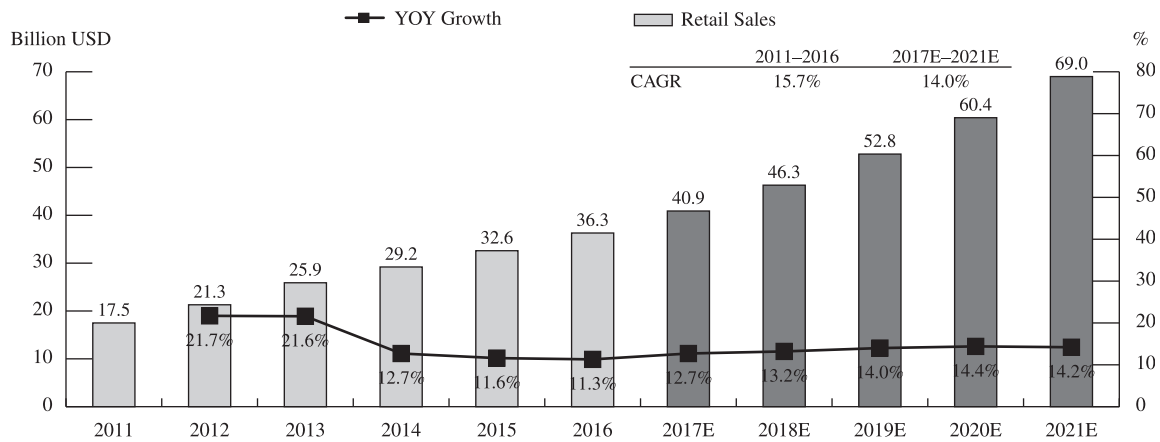
Regarding the retail sales value of different beauty products in the U.S., skin care products account for the largest share in the market and the total retail sales value has reached US\$18.8 billion in 2016, which grew at a CAGR of 3.3% between 2011 and 2016. The steady consumption on colour cosmetics by consumers has ensured the stable growth in retail sales value from US\$12.2 billion in 2011 to US\$16.1 billion in 2016, registering a CAGR of 5.7%. With the decreasing growth in the overall retailing industry, as well as the increasing maturity level of the whole beauty products market in the U.S., the retail sales values of different beauty products are expected to experience moderate decrease in growth in the next few years, but with the absolute values maintaining steady increase.

## INDUSTRY OVERVIEW

### PRC Beauty Products Retail Market

Along with the continuously growing income level, Chinese consumers have shown stronger consumption power. At the same time, they have raised larger demand and higher requirements on various consumer goods. Beauty products retail market is one of the segmented markets that experienced rapid growth affected by booming consumption demand. To better cater the demand of customers, beauty products retailers start to pay special attention to the quality of beauty products instead of the sales volume. Therefore, with the upgrade of the industry and a slowdown in the PRC overall economy, the year-on-year growth rate of the beauty product retail market in the PRC has witnessed a slight decline from 2013 to 2016. Total retail sales value of beauty products, comprising both standalone items and gift sets, increased from US\$17.5 billion in 2011 to US\$36.3 billion in 2016, representing a CAGR of 15.7%. Driven continuously by growing consumption demand and introduction of new and high-tech products, beauty products retail market in China is expected to grow at a CAGR of 14.0% from 2017 to 2021, with the retail sales value reaching US\$69.0 billion in 2021.

**Retail Sales Value of Beauty Products (PRC), 2011–2021E**



Source: F&S

**Retail Sales Value Breakdown by Product Category (PRC), 2011, 2016, 2021E**

Percentage in total beauty product retail sales value	2011	2016	2021E
Skin care	59.4%	54.8%	52.2%
Toiletries	15.4%	16.3%	16.4%
Hair care	12.6%	13.5%	13.9%
Colour cosmetics	8.0%	9.9%	10.9%
Fragrance	4.6%	5.5%	6.6%

CAGR	Skin care	Colour cosmetics	Hair care	Toiletries	Fragrance
2011–2016	13.9%	20.8%	17.4%	16.9%	20.1%
2017E–2021E	13.1%	15.6%	14.4%	14.0%	17.7%

Source: F&S



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## INDUSTRY OVERVIEW

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Compared with more developed markets worldwide, China beauty products retail market emerged comparatively late; therefore, the product structure of beauty products retail market is dominated by skin care products. With a retail sales value of US\$19.9 billion in 2016, skin care products accounted for over 54.7% of the total retail sales value. With the increasing per capita income and the awareness of health, customers are more willing to pay for expensive high-quality beauty products instead of low-end beauty products. Along with continuous evolution of using habits of Chinese consumers, as well as the recognition of other types of beauty products, the share of skin care retail market is expected to shrink in the future. As the internet develops rapidly, the information of make up and skin care are easier for customers to access to, which prompts customers to become more concern about the quality of colour cosmetics and fragrance. Hence, colour cosmetics and fragrance markets are expected to incur faster growth in terms of retail sales value and shares in the overall beauty products retail market.

### **Market Drivers of Beauty Products Retail Market**

- ***Increasing disposable income and purchasing power***

Demand for beauty products is expected to grow along with the increase in disposable income and purchasing power of consumers in the U.S. and the PRC, which allows consumers to spend more on beauty products than before.

- ***Greater demand for natural and premium products***

Consumers in the U.S. and the PRC nowadays pursue a healthy lifestyle and natural well-being by having higher requirements on safety, quality and results of beauty products, especially for personal care and baby and child-specific products with the concern about harmful chemicals and parabens. Characteristic of natural and better-quality ingredient products can fit people's healthier consuming behaviours. This trend is impacting the natural and premium sectors of beauty products, such as hydration, anti-ageing and skin whitening facial care, anti-cellulite and firming body care, etc., widening the price gap between premium products and cheap products and hence stimulating the growth of beauty product retail markets in the U.S. and the PRC.

- ***Emerging retailing channels***

The traditional retail sales channel of beauty products in the U.S. and the PRC is physical stores, including department stores, speciality stores and pharmacies. In recent years, with the popularity of internet, retailers start to adapt new retailing strategies, promoting and selling through online platforms, in order to expand their customer coverage as well as reduce their daily operation cost. Hence, customers are able to access to more quality products at a lower price, which largely increases their enthusiasm for beauty products.

- ***Increasing digital influence***

With the increasing popularity of "selfie culture" in the U.S. and the PRC, the influence of beauty blogs and vlogs grows rapidly as customers are eager for improving their application technique and creating specific look for different occasions, such as Halloween party and Christmas

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## INDUSTRY OVERVIEW

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party. The influence of famous bloggers, vloggers and celebrities inspires customers to spend more on beauty products and try new products, which drives the growth of beauty product retail market greatly.

- *Diversified offering from retailers*

Inspired by internet influencers, customers are pursuing personalised products. To meet with customers' demand, retailers are providing diversified offerings, including products of niche brands and beauty boxes as well as cooperating with some fast fashion brands to launch some special edition in the market.

### **Threats and Challenges of Beauty Products Retail Market**

- *Decreasing growth rate of the market*

Along with the slowdown of development pace of macro economy, the whole retailing industry has experienced reduced growth rate. Affected by the slowdown of macro environment, the growth of beauty products retail market has also decreased.

- *Intensive competition in the market*

Beauty products brand owners are facing intensive competition. Although holding comparatively larger market share, large scale players are continuously challenged by newly emerged brands. And newly emerged brands are struggling to gain market share in this relatively concentrated competitive landscape. Moreover, industry requirement on the quality of beauty products has been continuously increasing and is expected to continue to increase in the near future. The beauty products manufacturing market is highly competitive and beauty products manufacturers generally have no control over their customers' own schedule and frequency in respect of order placement and delivery deadline. Given the fragmented nature of the beauty products manufacturing market, failure to accommodate with the customer's intended schedule for order placement and delivery may result in the beauty product manufacturer's loss of such customer.

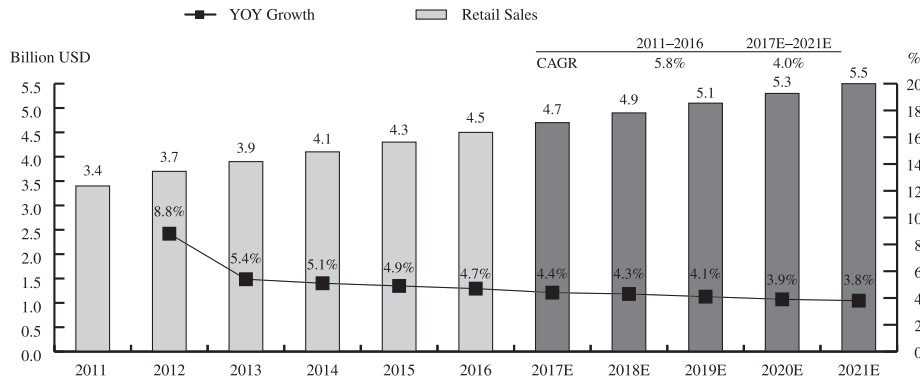
### **U.S. and PRC Beauty Products Gift Sets Retail Market**

Gift set refers to the type of products that is sold in the form of kits and packages, which usually contain various types of beauty products, as well as beauty bags and other accessories. Gift set is preferred by consumers as it contains various products and simplifies the selection and purchase process of beauty products. At the same time, gift set is usually discounted based on the total price of each of the products included. Gift set is usually launched to the market during holidays and festive seasons and special promotion periods, such as brand anniversary celebration. Standalone beauty products target repeat end-customers who use the beauty products on a daily basis and such products are available for purchase any time of the year. The sales of standalone

## INDUSTRY OVERVIEW

beauty products is generally less subject to seasonality as compared to gift sets of beauty products target for sale in holiday and festive seasons and special promotion periods.

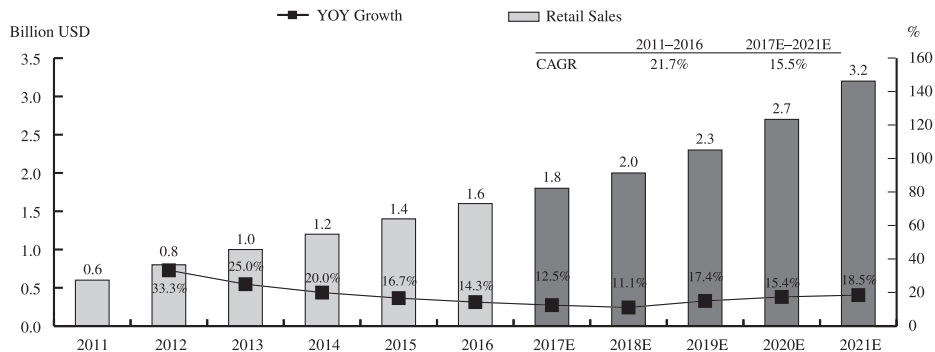
### Retail Sales Value of Gift Sets (U.S.), 2011–2021E



Source: F&S

Retail sales value of gift sets in U.S. increased from US\$3.4 billion in 2011 to US\$4.5 billion in 2016, representing a CAGR of 5.8%. Along with stable consumer demand on gift sets, the retail sales value is expected to experience a steady growth from 2017 to 2021, and the CAGR during the period is forecasted to be 4.0%. The slowdown in CAGR of gift sets market in U.S. is mainly due to the reduced growth rate of the overall beauty products retail market.

### Retail Sales Value of Gift Sets (PRC), 2011–2021E



Source: F&S

Consumption habits and related sharing via Internet by consumers in developed beauty products markets have largely influenced Chinese consumers during the past few years. At the same time, as various beauty product brands have developed fancy gift sets to better promote their sales during holiday seasons, Chinese consumers have shown increasing demand on gift sets. Retail sales value of gift sets increased from US\$0.6 billion in 2011 to US\$1.6 billion in 2016, representing a CAGR of 21.7%. As the macro economy environment in the PRC is expected to improve from 2017, gift set beauty products market is forecasted to experience further development.

Major market driver of gift sets market lie in the growth of consumer demand, which increased mainly due to the beneficial characteristics of gift sets, including simplifying the selection and purchase process of beauty products with multiple types of products included, and discounted

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## INDUSTRY OVERVIEW

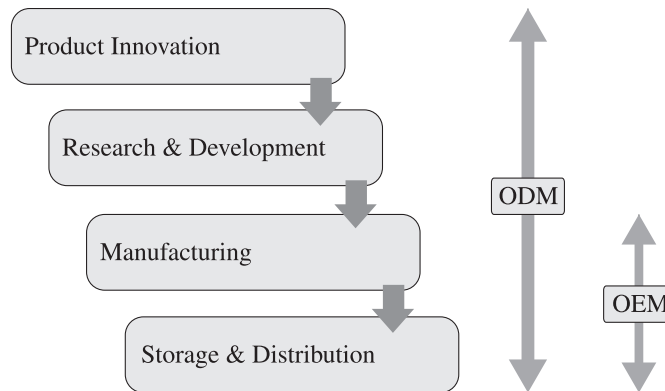
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price compared with total price of each of the products included. Continuous innovation and R&D on gift sets by both manufacturers and brand owners regarding product combination and exterior design also contributed to the growth of the market.

### OVERVIEW OF BEAUTY PRODUCTS MANUFACTURING MARKET IN THE PRC

#### Introduction and Definition of Different Types of Manufacturers

Beauty products manufacturing market in the PRC has experienced continuous improvement and development with business models such as OEM and ODM gradually getting more mature. Those manufacturers who tailor for certain beauty brands and whose products are eventually branded by other buying firms for sales are called as OEM, while those OEMs who also provide product formula and/or product appearance design services are called as ODM. The diagram below illustrates the difference in scope of work between ODM and OEM.



Source: F&S

Majority of beauty brand owners outsource product manufacturing to OEMs and ODMs, considering mainly cost control and efficiency improvement. To establish sizable manufacturing plants, beauty brand owners are required to invest large amount of initial capitals, as well as operational costs. Given that most of the beauty brand owners do not have enough capabilities to establish in-house production facilities, and they also lay high emphasis on cost control, beauty brand owners outsourced the manufacturing under most circumstances. Meanwhile, outsourcing manufacturing enables beauty brand owners to concentrate valuable resources on branding and sales, which largely improves the operational efficiency of enterprises.

ODMs, focus not only on quality and efficiency improvement, but also on providing more value-added services, such as product innovation and development. The manufacture of everyday standalone beauty products require a higher level of precision as compared with gift sets of beauty products target for sale in holiday and festive seasons and special promotion periods. Precision level is one of the key indicators to evaluate the performance of machineries and systems for manufacture of beauty products and is associated with the quality of final product. In general, requirement on precision level may vary depending on product types, complexity of products, quantity/volume of production in each run and the time of operation for the particular machinery and production system. For example, non-seasonal standalone beauty products are usually produced

## INDUSTRY OVERVIEW

in large quantity and multiple orders. Therefore, such kind of beauty products is generally manufactured by the machineries and systems with higher level of precision to minimise quality issues as well as generation of defective products and wastes during mass production. In contrast, seasonal beauty products are usually targeted for sale in holiday and festive seasons and the production volume is much lower than that of non-seasonal standalone beauty products which may be sold all year round.

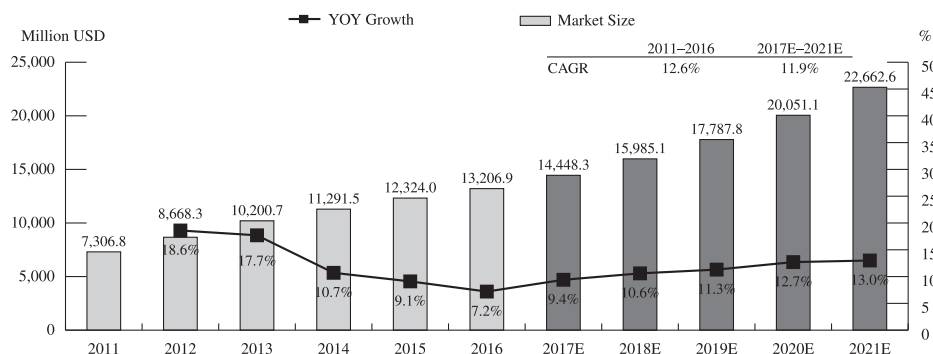
The improvement of ODMs' expertise has strengthened the corporative partnership with beauty brands, and enhanced the importance of them in the whole value chain. Product quality consistency is essential to the manufacture of standalone beauty products for sale all year round as the quality of a product has to be maintained throughout the product life cycle. As such, the manufacture of standalone beauty products requires machineries and systems with a higher level of precision as compared to the manufacture of beauty products included in gift sets targeted for sale in holiday and festive seasons. The product life cycles of beauty product gift sets and standalone seasonal products are relatively short, e.g. it may only last for one particular holiday season. On the other hand, standalone beauty products are designed for everyday use. Therefore, the product life cycle is comparatively longer than gift sets or standalone seasonal products.

### PRC Beauty Products Manufacturing Market

As the second largest consumption countries of beauty products worldwide, China is also one of the major production countries. While China exports a portion of the final products, most of the produced products are consumed domestically. Driven by growing domestic consumption demand and development of retail market, market size of beauty products manufacturing market increased from US\$7,306.8 million in 2011 to US\$13,206.9 million in 2016, representing a CAGR of 12.6%. The decrease of YOY growth from 2011 to 2016 is mainly due to the slowdown of overall macro economy environment in the PRC, as well as the retail market of beauty products.

The continuous improvement of business model and service quality of OEMs and ODMs will accelerate the increase of added value of manufacturing in the whole value chain, and thus lead to the further growth of the manufacturing market. Going forward, the market size is forecasted to increase at a CAGR of 11.9% from 2017 to 2021.

### Manufacturing Market Size of Beauty Products (PRC), 2011–2021E



Source: F&S

## INDUSTRY OVERVIEW

### Manufacturing Market Size Breakdown by Product Category (PRC), 2011, 2016, 2021E

Percentage in total beauty product manufacturing market size					
	2011	2016	2021E		
Skin care	61.2%	60.2%	59.1%		
Toiletries	13.4%	13.2%	13.0%		
Hair care	11.3%	11.3%	11.2%		
Colour cosmetics	10.3%	11.2%	12.2%		
Fragrance	3.8%	4.1%	4.5%		
CAGR	Skin care	Colour cosmetics	Hair care	Toiletries	Fragrance
2011–2016	12.2%	14.5%	12.6%	12.2%	14.3%
2017E–2021E	11.5%	13.6%	11.7%	11.7%	13.9%

Source: F&S

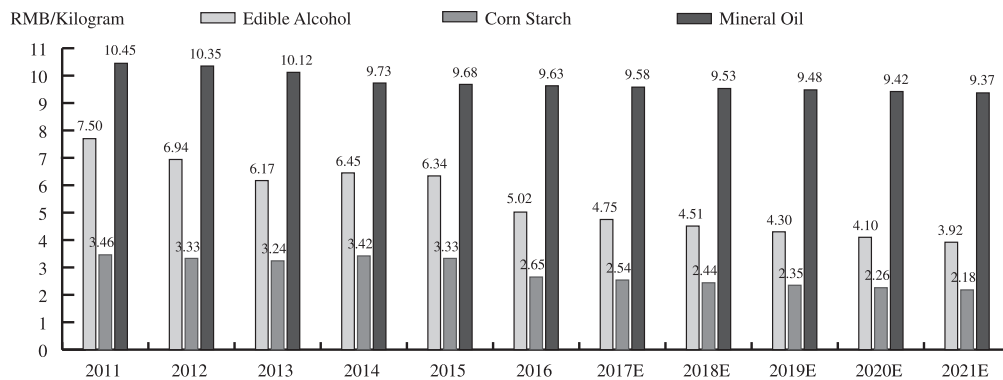
Skin care manufacturing market has occupied the largest market share in the overall manufacturing market regarding market size, whereas it has adopted the lowest growth. Comparatively, colour cosmetics and fragrance manufacturing markets have witnessed rapid growth during the past five years, due to not only stronger demand emerged from end-consumers, but also continuous product innovation. From 2017 to 2021, colour cosmetics and fragrance manufacturing markets are expected to grow at CAGR of 13.6% and 13.9% respectively.

### Major Raw Materials of Beauty Products Manufacturing

Major raw materials involved in the manufacturing of beauty products include edible alcohol, corn starch and mineral oil. Generally speaking, average wholesale prices of these raw materials have experienced slight decrease over the last five years, mainly due to the continuous maturity of the raw material supplying market. Therefore, it is in line with industry practice that short-term agreements with suppliers are always adopted.

In the next five years, it is expected that the average wholesale prices of these major raw materials will maintain stable trend, with slight decrease. The stable price trend will benefit the manufacturers in controlling the manufacturing costs.

### Average Wholesale Prices of Major Raw Materials (PRC), 2011–2021E



Source: F&S

### Market Drivers of Beauty Products Manufacturing Market

- *Increasing beauty products brand owners outsourcing manufacturing services in China*

Along with the continuous development of overall manufacturing market in China, increasing number of internationally-renowned beauty products brand owners are expected to transfer their manufacturing business to China due to lower operational costs and sufficient choices on suppliers. Considering the large production capacity of China beauty products manufacturers as well as the large local consumption market, China beauty products manufacturing market is expected to further expand.

- *Improving manufacturing techniques for high quality beauty products*

As the business cooperation with international beauty products brand owners continuously increases, the requirement of manufacturing tend to upgrade to ensure the quality of final products delivered to consumers worldwide. The improvement in overall manufacturing techniques and production quality control system would definitely drive the China manufacturing market in terms of the technical maturity and capability of innovation.

- *More integrated manufacturing services provided*

In order to stay competitive in the highly fragmented beauty products manufacturing market in China, manufacturers intend to provide more integrated and comprehensive services to the clients and facilitate clients in better cost control and quality control. As the services and products from China manufacturers further diversified, the overall manufacturing market is stimulated by healthy competition and keeps sustained development in the future.

### Entry Barriers of Beauty Products Manufacturing Market

- *Large capital investment*

A new entrant in beauty products manufacturing market needs sufficient capital to start up its business, for example, to conduct research and development, purchase of equipment, plant, raw materials, and so on. In order to compete with the existing market players who have already accumulated abundant capital and resources, new entrants face great challenge in obtaining capital resources and establishing initial production capacity.

- *Established partnership with valuable clients and suppliers*

For a manufacturing company in the competitive beauty products industry, it is critical to obtain and keep good relationship with its downstream clients (beauty products retailers, distributors, brand owners) and upstream suppliers. Existing market players enjoy the benefit of established value chain network while being able to develop new clients with industry reputation. New entrant manufacturers face the barrier in obtaining large valuable clients and maintaining stable partnerships due to limited network and industry experience.

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- ***R&D capacity***

R&D capacity is a prominent entry barrier for new beauty products manufacturers. R&D process does not only refer to the simple accumulation of several manufacturing procedures. The R&D of new beauty products should emphasise on the market demand, which needs cooperation and support from different departments of a company. Apart from understanding the market trends as well as consumers' preference, R&D department should also ensure the new beauty product manufacturing complies with certain safety regulations. For the established leading companies, due to their accumulation of experience and technological capabilities, they have sufficient resources in continuously expanding R&D capacity. Therefore, R&D capacity is one of the key market barriers for a new beauty products manufacturing company.

### **Threats and Challenges of Beauty Products Manufacturing Market**

- ***Intensive competition in the market***

At present, the market share of high-end beauty product manufacturing in the PRC is occupied by international manufacturers with strong R&D capabilities and solid financial strength which brings significant threats to domestic beauty products manufacturers.

In addition, as the market access requirement of low-end beauty products is not hard to meet, there are a large number of domestic small and medium-sized manufacturers in the market which makes the competition more intensive and hinders the development of domestic beauty products industry.

- ***Fragile relationship with raw material suppliers***

Beauty products manufacturing industry is a sub-sector of chemical industry which involves plenty of raw materials and is more likely to be affected by the supply and price of raw materials. The relationship between beauty product manufacturers and raw material suppliers is fragile and the beauty product manufacturers may face the shortage in the supply of raw materials or rising cost of raw materials.

- ***Insufficient capacity of high-end OEM manufacturers***

At present, domestic beauty product OEM manufacturers in the PRC mainly focus on the massive production of low-end product and the high-end beauty product OEM market is occupied by international manufacturers. The insufficient capacity of high-end beauty product will limit the development of beauty product OEM/ODM manufacturers in the PRC.

### **Competitive Landscape of Beauty Products Manufacturing Market**

The competition in China beauty product manufacturing market is highly fragmented and competitive. At the end of 2016, there are nearly 4,000 beauty products manufacturers in China. No player dominates the market in the beauty product manufacturing market. Different beauty product manufacturers compete on quality, price, design, production capability and ability to provide value-



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## INDUSTRY OVERVIEW

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added services. Continuous focus on maintaining quality control standards enables market players to attain a strong reputation and retain and expand customer base over the years. Also, it is an industry practice for manufacturers to develop a wide selection of designs in accordance with the current market trend for brand owners to choose from, in order to cater for their business strategy as well as increase the chance of selecting the designs of the manufacturers.

The top ten leading players only account for 4.6% in the market in terms of revenue in 2016. Among the top ten players, four of them are international players, including mainly Korean and Italian manufacturers. The following table sets forth the competitive landscape and market share of the top ten players in the beauty product manufacturing market in PRC in terms of revenue in 2016:

### Competitive Landscape of Beauty Products Manufacturers (PRC), 2016

<u>Rank</u>	<u>Company</u>	<u>Main Product Offerings</u>	<u>Regional Coverage</u>	<u>2016 Revenue</u> (Million US\$)	<u>Market Share</u>
1	Company I	Skin care, colour cosmetics and fragrances	Domestic market and export market	181.0	1.4%
2	Company II	Skin care product and skin care gift set	Domestic market and export market	179.2	1.4%
3	Company III	Skin care and colour cosmetics	Domestic market and export market	87.4	0.7%
4	Company IV	Skin care, colour cosmetics, body care and fragrances	Domestic market and export market	33.2	0.3%
5	The Group	Colour cosmetics, toiletries, fragrances and cosmetics gift set	Domestic market and export market	21.3	0.2%
6	Company V	Skin care, colour cosmetics, body care and fragrances	Domestic market	20.7	0.2%
7	Company VI	Skin care product, skin care gift set and fragrance	Domestic market and export market	19.3	0.1%
8	Company VII	Facial mask, skin care and personal care	Domestic market and export market	8.7	0.1%

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<u>Rank</u>	<u>Company</u>	<u>Main Product Offerings</u>	<u>Regional Coverage</u>	<u>2016 Revenue</u> (Million US\$)	<u>Market Share</u>
9	Company VIII	Skin care, personal care and hair care	Domestic market and export market	8.5	0.1%
10	Company IX	Skin care, body care, hair care, gift set and fragrance	Domestic market and export market	5.7	0.1%

*Source: F&S*

Generally speaking, design, development and manufacture of beauty products are more sophisticated and require more advanced and in-depth technology as opposed to beauty bags. Also, the beauty bags manufacturing industry has a lower entry barrier as opposed to the manufacturing industry of other beauty products, comprising skin care, colour cosmetics, hair care, fragrance, hand care and body care products, and the beauty bags manufacturing industry is more competitive. Similarly, for the design, development and sale of beauty bags, low technical knowhow is required, therefore, industry entry barrier is low, market competition is fierce in terms of product pricing, hence customer loyalty is weak given that they have different options for purchasing beauty bags.

With the supportive policy issued by the PRC government, the manufacturing sector in the PRC is likely to shift towards higher level of automation and intelligence. In particular, the State Council has issued “Made in China 2025” (《中國製造2025》) which sets out the nine core strategies to promote the transformation of manufacturing industry, including research and development for product innovation, supply chain optimisation, intelligent production and management. Pilot projects have been launched by the PRC government in the country with a key goal to achieve full implementation of intelligent manufacturing for key downstream sectors as well as reduction of operating cost and production cycle by 50% by 2025. Furthermore, in 2017, the State Council had approved the development plan for national food and safety in accordance with the “13th Five-Year Plan of the National Economy and Social Development” (《國民經濟和社會發展第十三個五年規劃綱要》), which includes strengthening the process of supervision, regular inspection and advancement of technology. In particular, the plan featured the goal to accelerate the revision of national standard for food safety as well as upgrading the standards of drug, medical equipment and cosmetics. Thus, beauty product manufacturers in the PRC are expected to upgrade their production facilities and equipment in order to meet the rising industry standard of cosmetics in the near future.

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## REGULATORY OVERVIEW

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This section sets forth a summary of the most significant regulations that affect our Group's business and operations. Information contained in this section should not be construed as a comprehensive summary nor detailed analysis of laws and regulations applicable to the business and operations of our Group.

### OVERVIEW OF THE PRC LAWS AND REGULATIONS

#### Laws and regulations in relation to foreign investment enterprises

Any investment activities conducted by foreign investors in the PRC are subject to the Catalogue of Industry Guidelines for Foreign Investment (2015 Revision) (《外商投資產業指導目錄(2015年修訂)》) (the “**Catalogue of Industry Guidelines**”). The Catalogue of Industry Guidelines is promulgated and amended by NDRC and MOFCOM from time to time. The prevailing Catalogue of Industry Guidelines was jointly promulgated by NDRC and MOFCOM on 10 March 2015, and came into effect on 10 April 2015. The latest version of the Catalogue of Industry Guidelines (2017 Revision) was promulgated on 28 June 2017 and came into effect on 28 July 2017. The Catalogue of Industry Guidelines divides the industries for foreign investment into three categories: (1) Encouraged Category; (2) Restrained Category; and (3) Prohibited Category. Except otherwise restricted by other PRC regulations, industries not listed in the Catalogue of Industry Guidelines fall into the “Permitted Category”, i.e., industries which foreign investors are permitted to invest in. The production of cosmetic products, which is not listed in the Catalogue of Industry Guidelines, should fall into the “Permitted Category” industry conducted by foreign investors.

The establishment, approval and daily operation of the subsidiaries we incorporated and operate in the PRC as wholly foreign-owned enterprises should also be subject to the Foreign-invested Enterprises Law of the PRC (《中華人民共和國外資企業法》), which was promulgated by the Standing Committee of the National People's Congress, effective on 12 April 1986, and amended on 31 October 2000 and 3 September 2016; the Interim Measures for the Administration of Establishment and Change of Filings of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》), which was promulgated by MOFCOM and effective on 8 October 2016; and the Implementation Regulations on the Foreign-invested Enterprises Law of the PRC (《中華人民共和國外資企業法實施細則》), which was promulgated by the Ministry of Foreign Economic Relation and Trade (the predecessor of MOFCOM) on 12 December 1990, and amended by the State Council on 12 April 2001 and 19 February 2014. Moreover, pursuant to the PRC Company Law (“**PRC Company Law**”) which was promulgated by the Standing Committee of the National People's Congress on 29 December 1993, effective on 1 July 1994, and amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013 and the Administrative Regulations on the Company Registration of the PRC (《中華人民共和國公司登記管理條例》) (the “**Administrative Regulations on the Company Registration**”) which was promulgated by the State Council on 24 June 1994, effective on 1 July 1994 and amended on 18 December 2005, 19 February 2014 and 6 February 2016, except otherwise specified in the laws in relation to investment of foreign investors, the subsidiaries we incorporated and operate in the PRC should also be subject to the PRC Company Law and the Administrative Regulations on the Company Registration.

### **Laws and regulations in relation to foreign trade**

According to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) which was promulgated by the Standing Committee of the National People's Congress on 12 May 1994, effective on 1 July 1994 and amended on 6 April 2004 and 7 November 2016, and the Measures for Filing and Registration Procedures of Foreign Trade Operators (《對外貿易經營者備案登記辦法》) which was promulgated by MOFCOM on 25 June 2004, effective on 1 July 2004 and amended on 18 August 2016, unless the filing and registration procedures are exempted by laws, administrative regulations and the competent foreign trade departments under the State Council, a foreign trade operator who is engaged in the import and export of goods or technologies should file the registrations with the competent foreign trade departments under the State Council or authorities delegated by the foreign trade departments. If any foreign trade operators do not complete the filing and registration procedures in accordance with the said provisions, the customs department will not handle the declaration and clearance procedures for goods imported or exported.

According to the Customs Law of the PRC (《中華人民共和國海關法》) which was promulgated by the Standing Committee of the National People's Congress on 22 January 1987, effective on 1 July 1987 and amended on 8 July 2000, 29 June 2013, 28 December 2013 and 7 November 2016 and the Administrative Provisions on the Registration of Customs Declaration Agents of the PRC Customs (《中華人民共和國海關報關單位註冊登記管理規定》) which was promulgated by the General Administration of Customs on 13 March 2014 and became effective on the same day, the registration of consignees or consignors of imported or exported goods and the customs brokers engaged in customs declaration shall register with the customs in accordance with the laws. In the absence of registration with the Customs in accordance with the laws, declaration business may not be conducted. Unless otherwise stipulated by laws, administrative regulations or customs rules, declaration agents engaging in the declaration business shall register with the customs in accordance with the provisions. According to the Law on Import and Export Commodity Inspection of the PRC (《中華人民共和國進出口商品檢驗法》) which was promulgated by the Standing Committee of the National People's Congress on 21 February 1989, effective on 1 August 1989 and amended on 28 April 2002 and 29 June 2013, import and export commodities listed in the Catalogue of Import and Export Commodities established and revised by the State Administration of Import and Export Commodity Inspection must not be sold or used (for imported commodities) or exported (for exported commodities) until they have passed inspection.

### **Laws and regulations in relation to anti-unfair competition**

According to the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) promulgated by the Standing Committee of the National People's Congress on 2 September 1993 and effective on 1 December 1993, operators shall not use unfair methods in their business transactions which can damage other competitors, which include, in particular, causing confusion to the market, commercial bribery, misleading propaganda, infringement of trade secrets, low pricing dumping, illegal offer of prize as sales rebates, commercial slander, etc.

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Any operators violating the Anti-Unfair Competition Law of the PRC and engaging in the abovementioned unfair competition conducts shall be ordered to terminate the illegal behaviour, have the illegal earnings confiscated or be ordered to eradicate the effect, be imposed fines, etc. by the regulatory body. If the circumstances are serious, the infringer's business licence may be revoked, or the infringer may incur criminal liability.

### **Laws and regulations in relation to the industry of cosmetic products**

#### ***The Notice on Matters Concerning Production Permit for Cosmetics Products by the China Food and Drug Administration***

According to the Regulation on the Hygiene Supervision over Cosmetics (《化妝品衛生監督條例》) which was promulgated by the Ministry of Health on 13 November 1989 and became effective on 1 January 1990, operators shall obtain the Hygiene Permit for the Production Enterprise of Cosmetics (《化妝品生產企業衛生許可證》). Units without a hygiene licence are not allowed to engage in the production of cosmetic products. Pursuant to the Notice on Matters Concerning Production Permit for Cosmetics Products by the China Food and Drug Administration (《國家食品藥品監督管理總局關於化妝品生產許可有關事項的公告》) promulgated by the China Food and Drug Administration on 15 December 2015 and effective on the same day, to engage in production of cosmetic products, one shall obtain the Cosmetics Production Permit (《化妝品生產許可證》) approved by food and drug administrative authorities. The validity period of the Cosmetics Production Permit is 5 years. The validity period of permit of the cosmetics production enterprises which have already obtained the National Industrial Product Manufacturing Permit (《全國工業產品生產許可證》) issued by the General Administration of Quality Supervision, Inspection and Quarantine and the Cosmetics Production Enterprise Hygiene Permit (《化妝品生產企業衛生許可證》) issued by the provincial food and drug administration is automatically extended to 31 December 2016. From 1 January 2016 onwards, cosmetics production enterprises holding the National Industrial Product Manufacturing Permit or the Cosmetics Production Enterprise Hygiene Permit shall file an application for replacement of licence with the local provincial food and drug administration.

#### ***The Notice on Matters Concerning the Adjustment of Registration, Filing and Management of Cosmetics***

According to the Notice on Matters Concerning the Adjustment of Registration, Filing and Management of Cosmetics (《關於調整化妝品註冊備案管理有關事宜的通告》) promulgated by the China Food and Drug Administration on 16 December 2013 and effective on the same date, since 30 June 2014, production enterprises of domestically produced cosmetics for general purpose shall file products information online pursuant to the Filing Requirements on Domestically Produced Cosmetics for General Purpose (《國產非特殊用途化妝品備案要求》) prior to the launching of products.

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Enterprises failing to perform the duty of filing products information of cosmetic products for general purpose prior to launching in accordance with the requirement shall, according to the relevant regulations of Article 7 under Rule 45 of the Detailed Rules for the Implementation of the Regulation on the Hygiene Supervision over Cosmetics (《化妝品衛生監督條例實施細則》), be penalised with warnings, and may be ordered to rectify within a specified period.

### **Code of Safe Technology for Cosmetics**

According to the Safety and Technical Standards for Cosmetics (2015) (《化妝品安全技術規範(2015年版)》) promulgated by the China Food and Drug Administration on 23 December 2015, and effective on 1 December 2016, operators producing and trading cosmetic products in the PRC (except products which are sold overseas exclusively) shall comply with the Safety and Technical Standards for Cosmetics after it became effective.

### **Administrative Provisions on Cosmetics Labelling**

According to the Administrative Provisions on Cosmetics Labelling (《化妝品標識管理規定》) promulgated by the General Administration of Quality Supervision, Inspection and Quarantine on 27 August 2007 and effective on 1 September 2008, cosmetic products refer to the products which are applied on human body (skin, hair, nails, lips and teeth, etc.) by smearing, spraying, sprinkling or other similar methods for the purpose of cleaning, caring, beautifying, polishing and changing the appearance, or modifying body odour, and maintaining good condition. The labels of words, symbols, numbers, patterns and other illustrations made by the operators producing (including packaging) and selling cosmetics for the name, quality, functions, instructions, information of producer and seller, etc. shall comply with the regulations.

Operators violating the Administrative Provisions on Cosmetics Labelling shall be ordered to rectify, be fined or be penalised by the quality inspection authority according to the relevant regulations stipulated in the Law of the PRC on Products Quality (《中華人民共和國產品質量法》), the Administrative Measures on the Inspection of Fixed Volume Prepackaged Goods (《定量包裝商品計量監督管理辦法》) and the Administrative Regulations on the Production Licence for Industrial Products of the PRC (《中華人民共和國工業產品生產許可證管理條例》).

### ***The Hygiene Specifications of Cosmetics Production Enterprises***

According to the Hygiene Specifications of Cosmetics Production Enterprises (《化妝品生產企業衛生規範》) promulgated by the Ministry of Health on 31 May 2007 and implemented on 1 January 2008, the hygiene requirements of cosmetics production enterprises regarding choice of location, facilities and equipment, raw materials and packaging materials, production process, storage of finished goods and entry and exit of warehouse, hygiene management and personnel, etc. shall conform with the specifications. The Detailed Rules for the Implementation of the Regulation on the Hygiene Supervision over Cosmetics (《化妝品衛生監督條例實施細則》) promulgated and effective on 27 March 1991 and amended on 20 May 2005 provides detailed implementation rules of the Regulations Concerning the Hygiene Supervision over Cosmetics (《化妝品衛生監督條例》). The penalties stipulated in the Regulations concerning the Hygiene Supervision over Cosmetics and the Detailed Rules for the Implementation of the Regulation on the Hygiene Supervision over Cosmetics could be applied together.

### **Laws and regulations in relation to product quality and safety**

#### ***Product Quality Law***

According to the Law of the PRC on Products Quality (《中華人民共和國產品質量法》) which was promulgated by the Standing Committee of the National People's Congress on 22 February 1993, effective on 1 September 1993 and amended on 8 July 2000 and 27 August 2009, a producer shall be responsible for the quality of products it produces, and a seller shall take proper measures to maintain the quality of the products it sells.

Enterprises violating the Product Quality Law shall be ordered to stop production and sales or to rectify, have products illegally produced and sold confiscated, and imposed fine; have illegal gains confiscated if applicable; and may have its business licence revoked or incur criminal liability for serious breaches.

#### ***The Production Safety Law***

According to the Production Safety Law of the PRC (《中華人民共和國安全生產法》) which was promulgated by the Standing Committee of the National People's Congress on 29 June 2002, effective on 1 November 2002 and amended on 27 August 2009 and 31 August 2014, production and operating entities should have production safety conditions required by the Production Safety Law of the PRC and other relevant laws, administrative regulations, national standards or industrial standards. Entities that fail to provide such production safety conditions shall not engage in production or operation activities.

#### ***Consumer Rights Protection Law***

According to the Law of the PRC on the Protection of Consumer Rights (《中華人民共和國消費者權益保護法》) which was promulgated by the Standing Committee of the National People's Congress on 31 October 1993, effective on 1 January 1994 and amended on 27 August 2009 and 25 October 2013, a consumer whose legal rights and interests are infringed during the purchase or use of goods may demand compensation from the seller. Where the responsibility lies with the manufacturer or another seller that provides the goods to the seller, the seller shall, after settling compensation, have the right to recover such compensation from that manufacturer or that other seller.

Consumers or other victims who suffer physical injuries or property losses due to defects in commodities may request compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller shall, after settling compensation, have the right to recover such compensation from the manufacturer, and vice versa.

### *The Tort Liability Law*

According to the Tort Liability Law of the PRC 《中華人民共和國侵權責任法》 which was promulgated by the Standing Committee of the National People's Congress on 26 December 2009 and became effective on 1 July 2010, a producer shall assume tort liability for damages to other persons due to defective products. If damages are caused by defective products, the infringer may request compensation from the producer or the seller of the products. If defective products are caused by the producer, the seller shall have recourse against the producer after it has paid the compensation. If defective products are due to the fault of the seller, the producer shall have recourse against the seller after it has paid the compensation.

If defective products are found after they have been launched, the producer or the seller shall take remedial measures such as issuance of warning, recall of products, etc. in a timely manner. The producer or the seller shall bear tort liability for damages caused by failure in taking remedial measures in a timely manner or sufficient remedial measures.

### **Laws and regulations in relation to intellectual property rights**

According to the Trademark Law of the PRC 《中華人民共和國商標法》 which was promulgated by the Standing Committee of the National People's Congress on 23 August 1982, effective on 1 March 1983 and amended on 22 February 1993, 27 October 2001 and 30 August 2013, natural persons, legal persons, or other organisations that need to acquire the right to exclusively use a trademark on its goods or services in the course of production and operations shall apply to the Trademark Office for trademark registration. The right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and goods on which the use of a trademark has been approved.

### **Laws and regulations in relation to environmental protection**

According to the Environmental Protection Law of the PRC 《中華人民共和國環境保護法》 which was promulgated by the Standing Committee of the National People's Congress, effective on 26 December 1989 and amended on 24 April 2014, the competent administration for environmental protection of the State Council is entitled to formulate national environmental quality standards. For items which are not governed by the national environmental quality standards, the people's governments of provinces, autonomous regions, and municipalities directly under the Central Government may formulate local environmental standards and file the same with the competent administration for environmental protection of the State Council for records.

According to the Environmental Impact Assessment Law of the PRC 《中華人民共和國環境影響評價法》 which was promulgated by the Standing Committee of the National People's Congress on 28 October 2002, effective on 1 September 2003 and amended on 2 July 2016, the Administrative Regulations for the Environmental Protection of Construction Projects 《建設項目環境保護管理條例》 which was promulgated by the State Council on 29 November 1998 and implemented on the same day, and the Administrative Measures for the Examination and Approval of Environmental Protection Facilities of Construction Projects 《建設項目竣工環境保護驗收管理



辦法》) which was promulgated by the State Administration for Environmental Protection (the predecessor of the Ministry of Environmental Protection) on 27 December 2001, implemented on 1 February 2002 and amended on 22 December 2010, the State implements a classification system in the management of the environmental impact appraisal of construction projects based on the degree of environmental impacts. Construction entities shall prepare environmental impact report, environmental impact report form or file environmental impact registration form in accordance with the relevant regulations. Among the environmental impact assessment documents, the environmental impact report or environmental impact report form shall be prepared by the competent institutions with relevant qualifications for environmental impact assessment. Upon the completion of the construction project, construction entities shall apply to the competent environmental protection authority for the environmental protection inspection acceptance for the completion of construction projects.

### **Laws and regulations in relation to fire services**

#### ***Fire Services Law***

According to the Fire Services Law of the PRC (2008) (《中華人民共和國消防法(2008)》) promulgated by the Standing Committee of the National People's Congress on 28 October 2008 and effective on 1 May 2009, for large venues with a high density of people or other special construction projects as prescribed by the Ministry of Public Security of the State Council, construction entities shall apply to the fire prevention authority of the public security department for fire prevention inspection. For other construction projects, construction entities shall file a record with the fire prevention authority of the public security department after inspection, and the fire prevention authority of the public security department should perform random checks.

A construction project that should be inspected for fire prevention pursuant to law is prohibited to be put into use if it fails to undergo or pass the fire protection inspection; other construction projects which fail to pass the random check according to law shall be refrained from using.

#### ***Fire Prevention and Safety Supervision and Inspection Regulations***

According to the Fire Prevention and Safety Supervision and Inspection Regulations (revised in 2012) (《消防監督檢查規定(2012年修訂)》) promulgated by the public security department on 17 July 2012 and effective on 1 November 2012, the fire prevention authority of the public security department and the public security authority conduct fire prevention supervision and examination regarding the compliance of fire prevention laws and regulations of entities. Violators shall be penalised by the fire prevention authority of the public security department according to the Procedural Requirements on the Handling of Administrative Cases by the Public Security Department (《公安機關辦理行政案件程序規定》), the Fire Prevention Law of the PRC (《中華人民共和國消防法》) and the Administrative Enforcement Law of the PRC (《中華人民共和國行政強制法》).

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### Laws and regulations in relation to labour

According to the PRC Labour Law (《中華人民共和國勞動法》) promulgated by the Standing Committee of the National People's Congress on 5 July 1994, effective on 1 January 1995 and amended on 27 August 2009, and the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) promulgated on 29 June 2007, effective on 1 January 2008 and amended on 28 December 2012, an employer's employment relationship with an employee is established on the date on which the employee assumes his duty. The employer shall enter into a written labour contract with the employee. The employer shall pay remuneration to the employee on time and in full.

According to the PRC Social Insurance Law (《中華人民共和國社會保險法》) promulgated by the Standing Committee of the National People's Congress on 28 October 2010 and effective on 1 July 2011, the Decisions of the State Council on the Establishment of a Unified System of Basic Support for Old Age Insurance Fund for the Employees of Enterprises (《國務院關於建立統一的企業職工基本養老保險制度的決定》) promulgated by the State Council and effective on 16 July 1997, the Decision of the State Council on the Establishment of the Basic Medical Insurance System for Urban Workers (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated by the State Council and effective on 14 December 1998, the Provisional Measures for Maternity Insurance of Employees (《企業職工生育保險試行辦法》) promulgated by the Ministry of Labour on 14 December 1994 and effective on 1 January 1995, the Regulation of Insurance for Labour Injury (《工傷保險條例》) promulgated by the State Council on 27 April 2003, effective on 1 January 2004 and amended on 20 December 2010, and the Regulation of Insurance for Unemployment (《失業保險條例》) promulgated by the State Council and effective on 22 January 1999, the employers and individuals within the territory of the PRC shall pay their social insurance premiums in accordance with laws. Social insurance funds shall include basic endowment insurance, basic medical insurance, occupational injury insurance, unemployment insurance and maternity insurance. Employers shall declare and make full payment of the social insurance premiums on their own as scheduled and shall not delay or reduce the payment for reasons other than statutory causes such as force majeure; otherwise, the social insurance agency may order rectification within a specified time limit or impose overdue penalty; and employer failing to rectify within the time limit shall be fined.

According to the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》) promulgated by the State Council on 3 April 1999, effective on the same day and amended on 24 March 2002, enterprises shall conduct the registration of housing provident fund contribution with local housing provident fund management centres, conduct the registration and make contribution for housing provident fund for newly employed employees; otherwise, enterprises may be ordered by the housing provident fund management centre to complete the procedures in a specific time limit, and would be fined in case of being overdue.

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According to the Foreign-invested Enterprises Law of the PRC, the Implementation Regulations on the Foreign-invested Enterprises Law of the PRC and the Trade Union Law of the PRC (《中華人民共和國工會法》), the employees of a foreign-invested enterprise have the right to establish base level trade union organisations to carry out trade union activities pursuant to the regulations of the Trade Union Law.

According to the Law on the Prevention and Control of Occupational Diseases of the PRC (《中華人民共和國職業病防治法》) promulgated by the Standing Committee of the National People's Congress on 27 October 2001, effective on 1 May 2002, and amended on 31 December 2011 and 2 July 2016, employers shall create work environment and conditions that meet the national occupational health standards and health requirements and take measures to ensure that occupational health of the employees are protected.

### **Laws and regulations in relation to foreign exchange**

According to the Regulations of the People's Republic of China for the Control of Foreign Exchange (《中華人民共和國外匯管理條例》) promulgated and effective by the State Council on 29 January 1996 and amended on 14 January 1997 and 5 August 2008, the management on foreign exchange can be divided into foreign exchange management under the current account and foreign exchange management under the capital account, including marketable securities, issue transaction of derivatives, overseas debts and external guarantees. The foreign currency receipts and remittances under the current account should have a genuine and legitimate basis. The foreign currency income under the current account may be retained or sold to the financial institution which is engaged in foreign exchange settlement and sale business in accordance with the relevant requirements of the State. Foreign exchange payment under the current account shall, in accordance with provisions relating to foreign exchange payments and purchases enacted by the foreign exchange administrative department under the State Council, be made out of the payer's own foreign exchange funds based on valid invoices or be made with foreign exchange purchased from any financial institution which is engaged in foreign exchange settlement and sales business. As for foreign exchange management under the capital account, it requires investors to complete the procedures of foreign exchange registration at the foreign exchange administrative department under the State Council. Transactions that require approval or acknowledgment in advance by the competent authority of the State must complete the necessary approval or filing procedures before the registration of foreign exchange. The SAFE issued the Notice on Distributing the Provisions on Foreign Exchange Administration over Direct Investment Made by Foreign Investors in China and its Supporting Documents (《國家外匯管理局關於印發〈外國投資者境內直接投資外匯管理規定〉及配套文件的通知》) (Circular 21) on 10 May 2013. Circular 21 further standardises and simplifies the operational steps and regulations on foreign exchange matters related to direct investment by foreign investors, including foreign exchange registration, account opening and use, receipt and payment of funds, and settlement and sales of foreign exchange through the specific foreign exchange management method of "registration management".

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According to the Notice of the SAFE on Reforming the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (Circular 19) promulgated by the SAFE on 30 March 2015, a foreign-invested enterprise shall not use its capital and the RMB funds obtained from foreign exchange settlement for any of the following purposes: (1) it shall not, directly or indirectly, use the foregoing funds for expenditure beyond its business scope or expenditure prohibited by laws and regulations of the State; (2) it shall not, directly or indirectly, use the foregoing funds for investment in securities, unless otherwise prescribed by laws and regulations; (3) it shall not, directly or indirectly, use the foregoing funds for disbursing RMB entrusted loans (unless permitted under its business scope), repaying inter-corporate borrowings (including third-party advances) and repaying RMB bank loans that have been sub-lent to third parties; and (4) it shall not use the foregoing funds to pay for the expenses related to the purchase of real estate not for self-use, unless it is a foreign-invested real estate enterprise.

### **Laws and regulations in relation to taxation**

#### ***Income Tax***

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (Enterprise Income Tax Law) promulgated by the National People's Congress on 16 March 2007, implemented on 1 January 2008 and amended on 24 July 2017, and the Implementation Rules of the Enterprise Income Tax Law promulgated by the National People's Congress on 6 December 2007 and effective on 1 January 2008, a resident enterprise is subject to an enterprise income tax for its income arising within the PRC and overseas.

Moreover, according to the Arrangement between the Mainland and the Hong Kong SAR for the Avoidance of Double Taxation and Tax Evasion on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), where a Hong Kong enterprise directly holds at least 25% of shareholding of a PRC enterprise, the withholding tax rate with respect to the payment of dividends by the PRC enterprise to the Hong Kong enterprise is 5%. Otherwise, the withholding tax rate is 10% for relevant dividends.

#### ***Value-added Tax***

According to the Provisional Regulations on Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例》) promulgated by the State Council on 13 December 1993, effective on 1 January 1994 and amended on 10 November 2008 and 6 February 2016 and its implementation rules, unless stated otherwise, for tax payers who sell goods in the PRC, the value-added tax rate shall be 17%; for tax payers who import and export goods, the tax rate shall be 0%.

#### ***Tax Rebate (Exemption) of Exported Goods***

According to the Administrative Measures for Tax Rebate (Exemption) of Exported Goods (Trial Implementation) (《出口貨物退(免)稅管理辦法(試行)》) issued by the SAT on 16 March 2005 and effective on 1 May 2005, goods operated or consigned by exporters for exports, unless stated

otherwise, upon declaration of export and financial accounting for sale, may be reported to the office of the State Taxation Bureau at the domicile for the approval of rebate or exemption from VAT or consumption tax based on relevant vouchers.

### *Custom duties*

According to the Regulations on Import and Export Duties of the PRC (《中華人民共和國進出口關稅條例》) promulgated by the State Council on 23 November 2003, effective on 1 January 2004 and amended on 8 January 2011, 7 December 2013, 6 February 2016 and 1 March 2017, the consignees of imported goods, the consignors of exported goods and the owners of entry articles are obligatory customs duty payers.

### *Strengthening the Management of EIT Collection of Proceeds from Equity Transfers by Non-Resident Enterprises*

According to the Notice on the SAT Strengthening the Management of EIT Collection of Proceeds from Equity Transfers by Non-Resident Enterprises (Guoshui No. 698) (《國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》(國稅698號文)) issued by the SAT on 10 December 2009 and effective on 1 January 2008, the income obtained by non-resident enterprises from their transfers of the equity interests of Chinese resident enterprises (excluding the stocks of PRC resident enterprises that are purchased from and sold in the open securities markets) is subject to income tax. If overseas investors (de facto controllers) indirectly transfer the equity interests of a PRC resident enterprise by adopting an abusive arrangement of organisational form and lack a reasonable business purpose for avoiding the obligation to pay enterprise income tax, the tax authority may re-examine the equity transfer according to business character after audit and disregard the existence of the offshore holding company used for taxation arrangement, and such foreign investors are also subject to income tax.

### *Several Issues concerning the Enterprise Income Tax on the Indirect Transfers of Properties by Non-Resident Enterprises*

According to the Announcement on Several Issues concerning the Enterprise Income Tax on the Indirect Transfers of Properties by Non-Resident Enterprises of the State Administration of Taxation (Guoshui Announcement 7) (《國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (國稅7號公告) issued by the SAT and effective on 3 February 2015, where a non-resident enterprise indirectly transfers equities and other properties of a Chinese resident enterprise to evade its obligation of paying enterprise income tax by implementing arrangements that are not for reasonable commercial purpose, such indirect transfer shall, in accordance with the provisions of Article 47 of the EIT Law, be re-identified and recognised as a direct transfer of equities and other properties of the PRC resident enterprise.

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## REGULATORY OVERVIEW

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### **Laws and regulations in relation to retained profits**

According to the Law of Foreign-funded Enterprises of the PRC (《中華人民共和國外資企業法》) and its implementation rules, the investments made by foreign investors within the PRC, together with the profits they obtained and other legal interests are protected by the PRC laws. Foreign-invested enterprises shall allocate a certain amount of their profits after tax (paid according to the PRC tax law) to a reserve fund and a bonus and welfare fund for staff and workers. The rate of allocations to the reserve fund shall not be lower than 10% of the after-tax profits. Further allocations may not be made once the cumulative amount of allocations reaches 50% of the registered capital of the enterprise. The rate of allocations to the bonus and welfare fund for staff and workers shall be determined by the foreign-invested enterprise. Foreign-invested enterprises shall not distribute profits until the losses from preceding accounting years have been made up. The undistributed profits of preceding accounting years may be allocated together with the profits available for distribution in this accounting year.

### **OVERVIEW OF HONG KONG LAWS AND REGULATIONS**

The following is a summary of certain aspects of the Hong Kong laws and regulations which are relevant to our Group's operation and business within the territory of Hong Kong.

#### **Labour, health and safety**

##### *Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)*

The Occupational Safety and Health Ordinance provides for the safety and health protection to employees in workplaces, both industrial and non-industrial.

Employers must, as far as reasonably practicable, ensure safe and healthy conditions in their workplaces by:

- providing and maintaining plant and work systems that do not endanger safety or health;
- making arrangement for ensuring safety and health in connection with the use, handling, storage or transport of plant or substances;
- providing all necessary information, instruction, training, and supervision for ensuring safety and health;
- providing and maintaining safe access to and egress from the workplaces; and
- providing and maintaining a safe and healthy work environment.

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## REGULATORY OVERVIEW

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### ***Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong)***

Under the Mandatory Provident Fund Schemes Ordinance, the employers shall participate in a Mandatory Provident Fund (“MPF”) Scheme for employees employed under the jurisdiction of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong). The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the plan vest immediately.

### ***Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)***

Under the Employees’ Compensation Ordinance, all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees’ Compensation Ordinance and at common law for injuries at work in respect of all their employees (comprising full-time and part-time employees).

### ***Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong)***

The current Minimum Wage Ordinance provides for a prescribed minimum hourly wage rate (currently set at HK\$34.5 per hour) during the wage period for every employee engaged under a contract of employment under the Employment Ordinance. Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

### **Import and export declaration**

#### ***Import and Export (Registration) Regulations (Chapter 60E of the Laws of Hong Kong)***

The Import and Export (Registration) Regulations (Chapter 60E of the Laws of Hong Kong) provides that when importing or exporting any articles, including beauty products and beauty bags into or out of Hong Kong, the importer or exporter must lodge an accurate and complete import or export declaration with the Customs and Excise Department.

### **Occupiers liability**

#### ***Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong)***

The Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong) imposes a common duty of care on an occupier of a premise to take reasonable care of the premise in all circumstances so as to ensure that his visitor will be reasonably safe in using the premises for the purposes for which he is invited or permitted by the occupier to be there.

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## REGULATORY OVERVIEW

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### Tax

#### *Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong)*

The Inland Revenue Ordinance is an ordinance enacted for the purposes of imposing taxes on property, earnings and profits in Hong Kong.

The Inland Revenue Ordinance provides, among other things, that profits tax shall be charged on every person carrying on a trade, profession or business in Hong Kong in respect of his or her assessable profits arising in or derived from Hong Kong at the standard rate, which stood as at the Latest Practicable Date at 16.5% for corporate taxpayers. The Inland Revenue Ordinance also contains detailed provisions relating to, among other things, permissible deductions for outgoings and expenses, set-offs for losses and allowances for depreciations of capital assets.

### OVERVIEW OF U.S. LAWS AND REGULATIONS

The following are the relevant laws and regulations of the U.S., being a country where the majority of our sales occurred during the Track Record Period. Based on the advice of our U.S. legal advisers, our Directors confirmed that we are not directly responsible for compliance with U.S. laws and regulations with respect to our Group's business, nor are we indirectly liable (e.g., via contractual obligations) for such compliance. It is possible, however, that our Group may be directly responsible for compliance with certain U.S. laws and regulations relevant to our Group's business that apply regardless of the location of the manufacturer. Such laws and regulations, that if not heeded, as set forth below, can lead to either private lawsuits or administrative actions taken by the U.S. government.

#### **Product Liability And Product Safety**

##### *Consumer product safety*

##### *Consumer Product Safety Act (the "CPSA") & Consumer Product Safety Improvement Act (the "CPSIA")*

Pursuant to the CPSA, the U.S. Consumer Product Safety Commission (the "CPSC") has jurisdiction over the safety of certain "consumer products" sold to the public. Cosmetics, shower gels, and fragrances are not considered "consumer products" and are governed by the cosmetic regulatory authorities of the U.S. Food and Drug Administration ("FDA") rather than the CPSC (Please see below for a description of the FDA's authority). The packaging of these products, however, can fall within the jurisdiction of the CPSC.

The CPSC has the ability to enforce consumer product regulations against importers. Further, the CPSC has the authority to list a foreign manufacturer as the manufacturer of any recalled or banned product, even if the foreign entity is not the importer of record. Accordingly, our Group could become subject to the CPSC's enforcement authority.



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## REGULATORY OVERVIEW

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The CPSIA governs product testing and documentation requirements and establishes permissible levels for certain substances, including lead. Products imported in the U.S. which fail to comply with the CPSIA's requirements are subject to confiscation, and the importer and/or distributor in the U.S. is subject to civil and criminal penalties.

### *General conformity certification*

Under the CPSIA, domestic manufacturers or importers of non-children's products subject to a product safety rule under the CPSA are required to issue a "general conformity certification," wherein the manufacturer or importer certify that their products comply with all applicable consumer product safety rules and similar rules, bans, standards and regulations under any law must be based on a "test of each product or a reasonable testing programme," and should specify each "rule, ban, standard or regulation applicable to the product." The certification must accompany the product or shipment, and must be furnished to United States Customs. The importer of record to the U.S. is required to supply the Certificate of Conformity. We, while not the importer of record for our products, play a role in ensuring that the importation of our products into the U.S. complies with U.S. laws, which includes providing our customers with accurate and complete documentation and information required for the issuance of a general conformity certification.

### *State consumer product regulations — California specific regulations*

There may be certain state regulations that apply to our products. The most significant state regulations are found in California. Of particular importance is Proposition 65, which requires warnings on products that contain substances found by the state of California to be a carcinogen and/or a reproductive toxicant. Proposition 65's list includes over 800 substances.

### *Product liability law*

Regardless of a product's compliance with federal regulatory provisions, if a product injures a person, the injured person may be able to file a product liability lawsuit against the manufacturer. Such lawsuits are typically filed in state court, and there is no federal products liability law. While the product liability laws of different states vary greatly, a product liability lawsuit will typically be based on any combination of the following theories: (i) strict liability; (ii) negligence; and (iii) breach of warranty. Note, however, that for any of these types of claims to be brought, a court in the U.S. (including any state court) must have jurisdiction over the foreign entity.

### *Strict liability*

Under strict liability, the defendant is liable when it is shown that a manufacturer's defective product caused the injury of the plaintiff. The three types of product defects that may result in manufacturer liability include design defects, manufacturing defects and warning/marketing defects.

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## REGULATORY OVERVIEW

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### *Fraudulent misrepresentation/Consumer fraud*

To prove a claim of fraud, fraudulent inducement or misrepresentation, the plaintiff must establish: (1) a false representation; (2) scienter (i.e., the representation was knowingly false); (3) intent to induce the plaintiff to act or refrain from acting; (4) justifiable reliance by the plaintiff; and (5) damage proximately caused by the representation. To establish justifiable reliance, the plaintiff must demonstrate that due care was exercised to discover the fraud. Courts have found that “misrepresentations are not actionable unless the complaining party was justified in relying thereon in the exercise of common prudence and diligence. Moreover, a party is not justified in relying on and assuming to be true representations consisting of mere expressions of opinion, hope, expectation, puffing, and the like; rather, representations of this nature must be inquired into and examined to ascertain the truth.”

### **Trade Laws and Regulations**

#### *Customs laws and regulations*

Our products being sold to our U.S. customers are subject to U.S. statutes and regulations that impose requirements and procedures for importing goods into the U.S. Our products being imported for sale in the U.S. are subject to tariff duties as provided in the Harmonised Tariff Schedule of the United States (the “**HTSUS**”), although such duty rate may be zero. They may also be subject to other duties and import restrictions. As required by Section 484 of the Tariff Act of 1930, as amended (the “**Tariff Act**”), at the time of importation, importers of our products, namely our customers or our agents, must, using reasonable care, submit entry documentation with the U.S. Customs and Border Protection (“**CBP**”), report the value of the imported merchandise, identify the country of origin of the products, assign tariff codes to the merchandise and pay tariff duties and fees in accordance with the HTSUS; the importer must also post a bond so that the merchandise can be released from CBP to be sold on the U.S. market. Our products must also be properly marked with their country of origin.

CBP is the principal administrative and enforcement agency of U.S. customs laws. CBP may stop goods at U.S. ports of entry for failure to be admissible, including the failure to meet the requirements of other U.S. government agencies such as FDA, Federal Communications Commission or CPSC, and may impose penalties on persons who fail to comply with the laws and regulations governing the importation of foreign products. Section 592 of the Tariff Act imposes penalties on any person who, by fraud, gross negligence, or negligence, introduces or attempts to enter or introduce any merchandise into the commerce of the U.S. by means of any document or electronically transmitted data or information, written or oral statement, or act which is material and false, or any omission which is material. CBP assesses civil penalties under Section 592 of the Tariff Act based on the level of culpability. Our customers or our agents act as the importers of our products and therefore are primarily responsible for the importation process and complying with U.S. customs laws and regulations. We, while not the importer of record or entry filer, play a role in ensuring that the importation of our products into the U.S. complies with U.S. laws, which

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## REGULATORY OVERVIEW

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includes providing our customers with accurate and complete documentation and information required for the customs entry process and properly marking our products with the country of origin.

### *Anti-dumping and countervailing duty laws; quotas*

U.S. laws offer protection for U.S. businesses that suffer from injurious, unfair competition through dumping or subsidisation of foreign products. In addition, the U.S. imposes import quotas on certain imported goods to control the amount or volume of the goods that can be imported into the U.S. during a specified period of time.

### *Section 337 of the Tariff Act of 1930*

Under Section 337 (“**Section 337**”) of the Tariff Act, the Trade Commission conducts investigations into allegations of certain unfair practices in U.S. import trade. The U.S. Department of the Treasury, Office of Foreign Assets Control (“**OFAC**”) administers and enforces economic and trade sanctions against targeted foreign countries, terrorists, international narcotics traffickers and those engaged in activities related to the proliferation of weapons of mass destruction.

OFAC sanctions apply primarily to U.S. persons, which comprise U.S. citizens and nationals (wherever located), U.S. corporations and other U.S. entities. Even though non-U.S. persons generally are not always directly bound to comply with OFAC sanctions, in recent years, OFAC has asserted that such non-U.S. persons can be held liable for violations of OFAC sanctions on various legal grounds, such as with respect to dealings in U.S. goods, services, or technology, or involving U.S. parties, causing violations by U.S. persons, or by engaging in transactions completed in part in the United States. In addition to the OFAC sanctions, the United States maintains numerous secondary sanction programs that provide the authority for the imposition of U.S. sanctions on foreign parties that engage in certain dealings with Iran and, to a lesser extent Cuba and Russia, regardless of whether there is a nexus to the United States. The extraterritorial nature of U.S. sanctions imposes a due diligence burden on foreign companies.

Violations of U.S. export controls and sanctions laws may result in civil and criminal penalties, which include denial of export privileges, fines and imprisonment.

### **Other Laws and Regulations — Regulation of Beauty Products**

We design, develop, manufacture and sell beauty products to our customers. We principally manufacture on a contract basis with the exception of a few of our own brands. This manufacturing primarily occurs under the cosmetics manufacturing arm of our business at the Cosbe Facility in China.

All cosmetics sold in the U.S. must comply with both the Federal Food, Drug and Cosmetic Act (“**FDCA**”) and the Fair Packaging and Labelling Act (“**FPLA**”). While FDA has the authority to enforce both the FDCA and the FPLA, it has limited authority to regulate cosmetics. The regulation of cosmetic products and ingredients is much less stringent than for other FDA-regulated products, such as foods, drugs, and devices. Unlike other FDA-regulated products, there are no

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## **REGULATORY OVERVIEW**

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mandatory registration or listing requirements for cosmetic products. Instead, the Voluntary Cosmetic Registration Programme (“VCRP”) is a voluntary registration programme for manufacturers, packers, and distributors of cosmetic products intended for consumers that are in commercial distribution in the United States whereby companies can submit cosmetic product ingredient statements to FDA which FDA will maintain on file. The VCRP is not a cosmetic approval programme and no fees are required to participate in this voluntary programme. Because the programme is voluntary, most cosmetic product companies, ourselves included, do not participate in this regulatory programme.

Due to its limited regulatory authority for cosmetics, the primary way in which FDA regulates cosmetics is through the safety of ingredients and labelling claims. Namely, FDA specifically prohibits the use of any ingredient or colour additive in a cosmetic that makes the product harmful when used as intended by a consumer.

### **OVERVIEW OF UAE LAWS AND REGULATIONS**

The following are the relevant laws and regulations of the UAE, being a country where a relatively material amount of our sales occurred during the Track Record Period.

The Federal Law No. 24 of 2006 regarding consumer protection lays the groundwork for consumer protection in the UAE. Cabinet Resolution No. (12) of 2007 expands upon the consumer law provisions and further describes the obligations placed upon suppliers of goods. The General Product Safety Directive (2001/95/EC) set a minimum safety threshold for products, introduced the standards and provided a legal framework for product recalls (and other remedies).

The UAE has adopted the requirement that imported products carry a Certificate of Origin. The convention prescribes that where two or more countries have participated in the production of goods, the origin of the goods should be determined according to the substantial transformation criterion.

In addition, the Executive Resolution No. (4) of 1979 concerning fraud and deception in commercial transactions require that the product label contains the following minimum information:

- (1) Information regarding the type and nature of the goods and their ingredients, product name, date of protection or packaging, net weight, country of manufacture and country of export (if any) operating instructions and expiry date;
- (2) An insert, detailing the ingredients, specifications, directions for use, risks and other information in Arabic, together with an additional conspicuous warning regarding any particular risks associated with the product; and
- (3) Any commercial statement relevant to the product must be accurate, should not be misleading, or confuse the product with that of a competitor or another product, which is protected by a trademark.

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## REGULATORY OVERVIEW

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UAE consumer law sets out penalties for breach. The primary sanction is a fine of between AED10,000 and AED1,000,000 for a wide range of offences:

- (1) Use of any goods or services, which may inflict damage on the consumer in the course of ordinary usage.
- (2) Labeling the product other than in compliance with legal requirements.
- (3) Failing to provide appropriate warnings to consumers as to the risks associated with the product.
- (4) Failing to comply with approved standard specifications.
- (5) Artificially creating market conditions which control market price and forces an increase in the price of products.

UAE consumer law specifies that the supplier will lead the recall and is under a duty upon discovering the defect to inform the Consumer Protection Department. The regulator may institute recall procedures immediately where the safety of the consumer is compromised.

However, such powers will only be exercised in circumstances where the supplier has failed to recall the product. In circumstances where a defect is deemed isolated on a case-by-case basis the recall of the entire product line may be deemed unreasonable.

Under the Consumer Protection Regulations No. 12 of 2007 the definition of supplier is wide and includes “a natural or legal person that provides the service or information or manufactures, distributes, trades, sells, imports or exports the commodity or interferes in the manufacturing or trading thereof”. The definition of defect is wide and includes faults in the “designing, processing or manufacturing of any goods, its non-suitability, deformation or damage before, during or as a result of use, or due to the non-conformity or non-compliance sufficiently with the Approved Standards Specifications, the warranty, or specifications declared or to be declared by the provider; or any acknowledgement or advertisement relating to or posted on the goods”.

The regulatory bodies have the power to fine a supplier a sum of at least AED7,000 (approximately HK\$14,800) for failing to cooperate and have the power to request the court impose a sentence of imprisonment, not less than three months, to the non-compliant personality.

The Consumer Protection Department is regulated by the Ministry of Economy, which has delegated certain functions to the Consumer Protection Department. The Emirates Authority regulates the safety and quality of products for Standardisation and Metrology (“ESMA”), which regulates all matters relating to standard, measurements, quality and standardisation of products. These bodies are assisted by Abu Dhabi Quality and Conformity Council (“ADQCC”), and in Dubai are performed by the consumer department of the Dubai Municipality.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### BUSINESS DEVELOPMENT

Our Group's history can be traced back to December 1994 when Takbo was incorporated in Hong Kong by Ms. Chu and Mr. TM Or and subsequently with the addition of Mr. Or Naam in the following month, all using their personal savings, to principally sell bags and gift box packaging. Throughout the years, Takbo's business has expanded to cover the design, development and sale of beauty products and beauty bags. Cosbe was established in 2002 and the Cosbe Facility commenced operations in 2003. Toiletries were the first type of beauty products we manufactured. In 2002, due to family arrangement, Mr. TM Or transferred his entire shareholding in Takbo to Ms. Chu. Thereafter, Mr. TM Or ceased to have any interest in our Group. For further information, please refer to “— Corporate history — Takbo”.

### BUSINESS MILESTONES

We believe the key milestones in the development of our Group are as follows:

<u>Year</u>	<u>Milestone</u>
1994	Incorporation of Takbo
1999	Incorporation of B&B
2002	Establishment of Cosbe
2003	Commencement of operations of the Cosbe Facility and the manufacture of toiletries products
2006	Cosbe first obtained ISO 9001 qualification
2007	Commencement of manufacture of fragrance products
2008	Cosbe first obtained GMPC qualification

### CORPORATE HISTORY

#### Our Company

On 8 February 2017, our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability with an initial authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. On the same date, one nil-paid Share (the “**Subscriber Share**”) was allotted and issued to the initial subscriber, a nominee of Conyers Trust Company (Cayman) Limited, who then transferred the Subscriber Share to Mr. Or Naam on the same day. On 1 March 2017, Mr. Or Naam transferred the Subscriber Share to Classic Charm for nil consideration. Upon completion of such share transfer, our Company became a wholly-owned subsidiary of Classic Charm.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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On 29 September 2017, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$100,000,000 divided into 10,000,000,000 Shares by the creation of an additional 9,962,000,000 Shares, ranking *pari passu* in all respects with the then existing Shares.

Our Company became the holding company of our Group as a result of the Reorganisation, details of which are set out in “— Reorganisation”.

A summary of the corporate history of the major operating subsidiaries of our Group is set out below:

### **Takbo**

On 20 December 1994, Takbo was incorporated in Hong Kong as a limited liability company with an authorised share capital of HK\$10,000 divided into 1,000 shares of HK\$10 each. Mr. TM Or and Ms. Chu were the initial subscribers and each subscribed for and were allotted and issued one share of Takbo for cash at par. On 16 January 1995, 299 shares, 299 shares and 300 shares of Takbo were allotted and issued to Mr. TM Or, Ms. Chu and Mr. Or Naam, respectively, for cash at par.

On 31 October 2002, due to family arrangement, Mr. TM Or transferred his 300 shares of Takbo to Ms. Chu for cash at par.

On 14 March 2005, Ms. Chu transferred 110 shares of Takbo to Mr. Or Naam for cash at par. On the same date, 100 shares of Takbo were allotted and issued to Mr. Or Naam for cash at par. As a result, Takbo was owned as to 51% and 49% by Mr. Or Naam and Ms. Chu, respectively, immediately prior to the Reorganisation.

On 20 February 2017, Takbo set up a representative office in the PRC to provide liaison services on functions such as procurement and design.

Following the Reorganisation, Takbo became an indirect wholly-owned subsidiary of our Company. Takbo principally designs, develops and sells beauty products and beauty bags.

As at the Latest Practicable Date, the issued share capital of Takbo is HK\$10,000.

### **B&B**

On 9 April 1999, B&B was incorporated in Hong Kong as a limited liability company with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. Mr. Or Naam and Ms. Chan were the initial subscribers and each subscribed for and were allotted and issued one share of B&B for cash at par. As a result, B&B was owned as to 50% by each of Mr. Or Naam and Ms. Chan.

Following the Reorganisation, B&B became an indirect wholly-owned subsidiary of our Company. B&B is an investment holding company.

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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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As at the Latest Practicable Date, the issued share capital of B&B is HK\$2.00.

### **Cosbe**

On 28 June 2002, Cosbe was established under the PRC law as a limited liability company with an initial registered capital of RMB8 million. Since the date of its establishment, Cosbe was wholly-owned by B&B.

In order to meet the capital requirement for business development, further capital contribution of RMB4 million were made by B&B to Cosbe, which resulted in the increase of the registered capital of Cosbe to RMB12 million, which was paid up on 25 June 2007. In February 2017, the registered capital of Cosbe was increased to RMB27 million. Pursuant to the articles of association of Cosbe, the newly increased registered capital shall be paid up within three years by instalments.

Our PRC Legal Advisers have confirmed that all necessary approvals from and registration with the relevant PRC authorities required in respect of the above capital contributions have been obtained and completed.

Cosbe is one of our Group's operating subsidiaries and principally designs, develops manufactures and sells beauty products.

### **REORGANISATION**

In preparation for the Listing, our Group has undergone the Reorganisation whereupon our Company became the holding company and the listing vehicle of our Group and our operating subsidiaries were transferred to our Company.

The principal steps of the Reorganisation are as follows:

#### **Incorporation of Classic Charm**

On 17 October 2016, Classic Charm was incorporated in the BVI as a limited liability company and was authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 1 March 2017, Classic Charm allotted and issued 508, 397 and 95 shares to Mr. Or Naam, Ms. Chu and Ms. Chan, respectively, for cash at par.

#### **Incorporation of Alpha Business**

On 10 January 2017, Alpha Business was incorporated in the BVI as a limited liability company and was authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 23 February 2017, Alpha Business allotted and issued one share to our Company for cash at par.



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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### **Incorporation of Full Colour**

On 4 January 2017, Full Colour was incorporated in the BVI as a limited liability company and was authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 23 February 2017, Full Colour allotted and issued one share to Alpha Business for cash at par.

### **Incorporation of Dawning Beauty**

On 30 August 2016, Dawning Beauty was incorporated in the BVI as a limited liability company and was authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 1 February 2017, Dawning Beauty allotted and issued one share to Mr. Or Naam for cash at par. On 27 February 2017, Mr. Or Naam transferred the one share to Alpha Business for cash at par.

### **Transfer of Takbo to Full Colour**

On 25 September 2017, pursuant to a sale and purchase agreement entered into among Mr. Or Naam, Ms. Chu and our Company on even date, Mr. Or Naam and Ms. Chu transferred their entire shareholding interest in Takbo to Full Colour, as our Company's nominee, in consideration of (a) our Company allotting and issuing one Share, credited as fully paid, to Classic Charm; and (b) our Company crediting the Subscriber Share as fully paid at the direction of Mr. Or Naam and Ms. Chu.

### **Transfer of B&B to Dawning Beauty**

On 25 September 2017, pursuant to a sale and purchase agreement entered into among Mr. Or Naam, Ms. Chan and our Company on even date, Mr. Or Naam and Ms. Chan transferred their entire shareholding interest in B&B to Dawning Beauty as our Company's nominee, in consideration of our Company allotting and issuing one Share, credited as fully paid, to Classic Charm at the direction of Mr. Or Naam and Ms. Chan.

Upon completion of the Reorganisation but before the Share Offer (and not taking into account of any Shares which may be allotted and issued upon the exercise of options which may be granted pursuant to the Share Option Scheme), the entire issued share capital of our Company would be held by Classic Charm, which is owned as to 50.8%, 39.7% and 9.5% by Mr. Or Naam, Ms. Chu and Ms. Chan, respectively.

## **CAPITALISATION ISSUE AND THE SHARE OFFER**

Conditional upon the creation of our Company's share premium account as a result of the issue of the new Shares pursuant to the Share Offer, an amount of HK\$2,999,999.97 standing to the credit of the share premium account of our Company will be capitalised by applying such sum towards paying up in full at par a total of 299,999,997 Shares for allotment and issue to the then existing Shareholders whose names appear on the register of members of our Company at the close of business on 29 September 2017.

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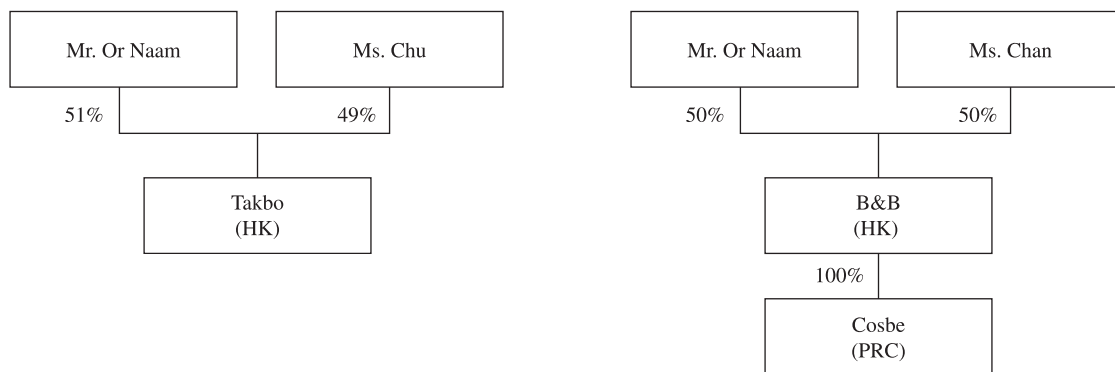
## HISTORY, REORGANISATION AND GROUP STRUCTURE

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### CORPORATE STRUCTURE OF OUR GROUP

The following charts illustrate our corporate structure (1) immediately before the Reorganisation; (2) immediately after the Reorganisation (but before the Share Offer and the Capitalisation Issue and without taking into account of any Shares which may be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme); and (3) immediately following completion of the Share Offer and the Capitalisation Issue (but taking no account of any Shares which may be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme):

The shareholding structure of our Group immediately before the Reorganisation is set out below:

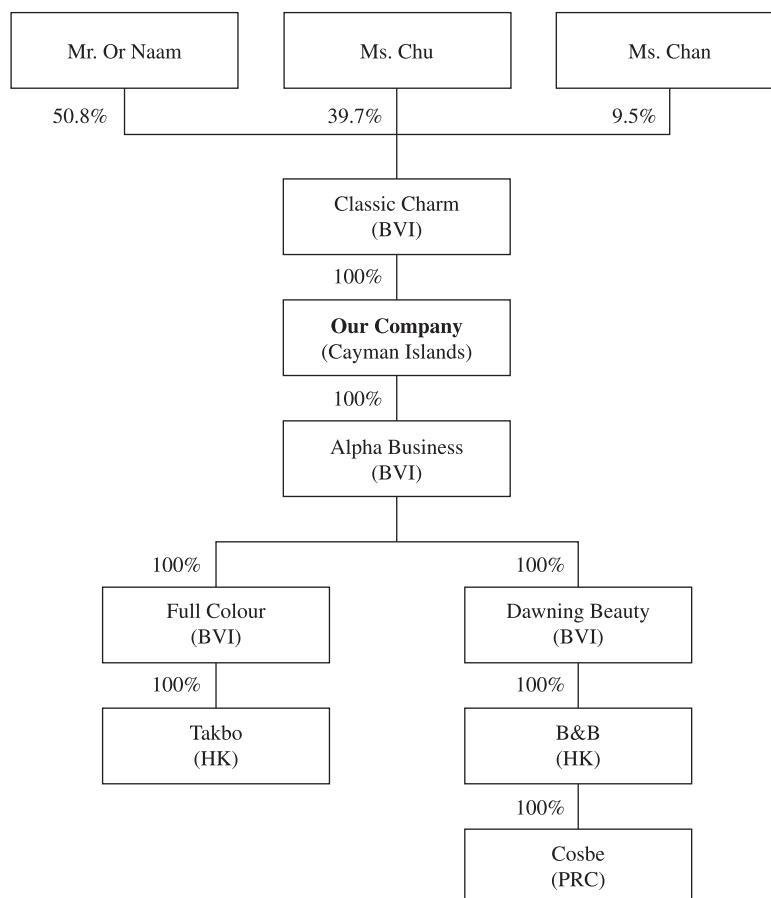


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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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The shareholding structure of our Group immediately after the Reorganisation (but before the Share Offer and the Capitalisation Issue and without taking into account of any Shares which may be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme) is set out below:

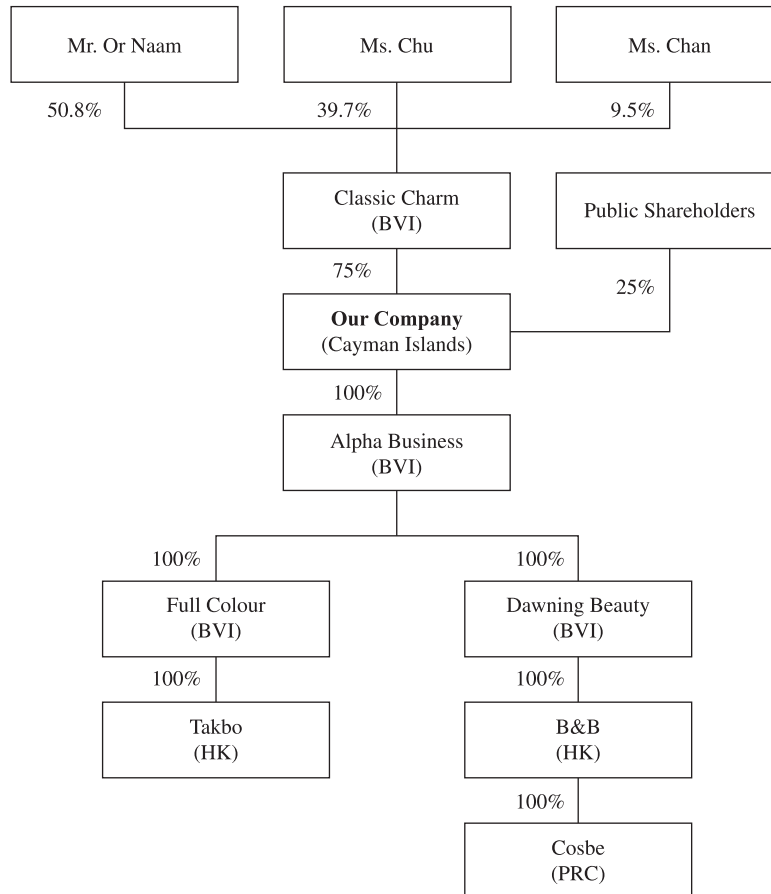


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## HISTORY, REORGANISATION AND GROUP STRUCTURE

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The shareholding structure of our Group immediately following completion of the Share Offer and the Capitalisation Issue (but taking no account of any Shares which may be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme) is set out below:



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## BUSINESS

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### OVERVIEW

We principally (i) design, develop, manufacture and sell beauty products; and (ii) design, develop and sell beauty bags. Our Directors believe that we are a well-established beauty products manufacturer in the PRC as we have successfully operated such business for approximately 14 years. For the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, sales of our beauty products and sales of our beauty bags accounted for approximately 62.9%, 70.1%, 49.0% and 57.0% of our total revenue and approximately 37.1%, 29.9%, 51.0% and 43.0% of our total revenue, respectively. During the Track Record Period, more than 90% of our revenue was derived from sales to customers overseas, including the U.S., UAE, United Kingdom, Germany, Canada, Sri Lanka and Fiji, etc. According to the F&S Report, we ranked fifth in the beauty products manufacturing market in terms of revenue in the PRC in 2016 (the market share of the top five players in the PRC in 2016 was approximately 4% in total).

During the Track Record Period, our beauty products production lines were located at the Cosbe Facility in Shantou, the PRC, which we have rented from Baoma, a connected person of our Company. The Cosbe Facility commenced operations in 2003 and occupies a total gross floor area of approximately 6,000 sq.m. with 14 and 12 production lines for mixing and filling of beauty products, respectively, as at the Latest Practicable Date. As at the Latest Practicable Date, the Cosbe Facility has obtained ISO 9001 and GMPC certifications.

### BUSINESS MODEL

Our beauty products, comprising colour cosmetics, toiletries and fragrances are manufactured on an OEM or ODM basis. Our beauty products are typically sold to retailers and brand owners overseas. Our OEM business involves the manufacture and sale of products based on customers' specifications and guidelines. Our ODM business leverages on the capabilities of our design and research and development teams by creating designs in line with the current market trend, enabling our customers to enjoy our "one-stop service" in terms of design, development and production of quality and tailor-made products.

In respect of the design, development and sale of beauty bags, we provide solutions to our customers on market research and analysis, design and development and production management. We maintain such line of business to complement our main line of beauty products manufacturing business and to diversify the products and services we are able to offer to our customers. All of our beauty bags are produced by external manufacturers, two of which during the Track Record Period are connected persons of our Company. A majority of our beauty bags are sold to customers under their own brands.

During the Track Record Period, we have also sold beauty products and beauty bags under our own brands, namely "Pink Viva", "Secret Lace" and "Gorgeous Girl Forever", to one of our top five customers, namely, Customer B (U.S.), which is a globally renowned chain superstore originated in the U.S.

## BUSINESS

We believe that our design and development capabilities, vertically integrated production process for beauty products, manufacturing know-how and quality control also contribute to our success, as demonstrated by our long business relationship with our major customers and our lengthy track record.

The following table sets out the revenue of our respective businesses by product category for the Track Record Period:

	Year ended 31 December				Four months ended 30 April			
	2015		2016		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)							
<b>Beauty products</b>								
Colour cosmetics	85,423	50.0	86,783	52.6	7,984	31.4	9,264	38.6
Fragrances	10,192	6.0	6,804	4.1	2,235	8.8	2,331	9.7
Toiletries	11,786	6.9	22,086	13.4	2,224	8.8	2,094	8.7
<b>Sub-total for beauty products</b>	<b>107,401</b>	<b>62.9</b>	<b>115,673</b>	<b>70.1</b>	<b>12,443</b>	<b>49.0</b>	<b>13,689</b>	<b>57.0</b>
<b>Beauty bags (Note)</b>	<b>63,406</b>	<b>37.1</b>	<b>49,425</b>	<b>29.9</b>	<b>12,954</b>	<b>51.0</b>	<b>10,341</b>	<b>43.0</b>
<b>Total</b>	<b>170,807</b>	<b>100.0</b>	<b>165,098</b>	<b>100.0</b>	<b>25,397</b>	<b>100.0</b>	<b>24,030</b>	<b>100.0</b>

*Note:* Our beauty bags are categorised as non-seasonal standalone items.

The following table sets out the revenue generated from the sale of our beauty products by mode of operation for the Track Record Period:

	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)			
ODM (Note)	30,073	50,746	—	1,322
OEM	77,328	64,927	12,443	12,367
<b>Total</b>	<b>107,401</b>	<b>115,673</b>	<b>12,443</b>	<b>13,689</b>

*Note:* Revenue from our ODM business also includes revenue generated from the sale of our beauty products under our own brands (as disclosed in “Business — Business model”) of approximately HK\$13.0 million, HK\$13.5 million, nil and nil, respectively, for the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, and accounted for approximately 7.6%, 8.2%, nil and nil of our total revenue, during the respective periods.

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## BUSINESS

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The following table sets out the revenue generated from the sale of our beauty products by product type for the Track Record Period:

	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Unaudited)	
Non-seasonal standalone beauty products	36,515	26,842	9,619	12,367
Seasonal standalone beauty products	110	—	—	—
Gift sets ( <i>Note</i> )	70,776	88,831	2,824	1,322
<b>Total</b>	107,401	115,673	12,443	13,689

*Note:* Gift sets represent seasonal beauty products gift sets.

### COMPETITIVE STRENGTHS

We believe that our success and potential for future growth are attributable to the following competitive strengths:

#### **Stable business relationships with our top five customers during the Track Record Period**

We believe cultivation and maintenance of customer loyalty is crucial to our continued success. During the Track Record Period, we maintained stable business relationships with our customers. During the Track Record Period, we had 22 repeat customers out of the 40 customers in total, which had placed purchase orders with us in at least either two of the three financial years ending 31 December 2017, and five of which had over 10 years of business relationship with us up to the Latest Practicable Date. Our top five customers for the Track Record Period included a globally renowned chain superstore group originated in the U.S. and beauty products brand owners. Of our top five customers for the Track Record Period, four have had 10 years or above of business relationships with us up to the Latest Practicable Date.

We have close working relationship with our customers throughout the sales process from the product design and development stage to production phase and product delivery. We communicate with our key customers to better understand their needs and produce products to match the desired image of their brands. Representatives from our customers may visit our showroom in our Hong Kong office to discuss product development plans and tour the Cosbe Facility.

We believe that by consistently providing our customers with quality products and services on a timely basis, we have and will continue to win the trust of our customers, and are well positioned to develop new relationships with prospective customers in pursuit of our growth strategy.

**Extensive product range**

We have an extensive product offering that covers a wide selection of beauty products, covering colour cosmetics, toiletries and fragrances, and beauty bags. During the Track Record Period, we offered for sale 16, five, one and seven types of colour cosmetics, toiletries, fragrances products and beauty bags, respectively, in different sizes, varieties, colours and shades, etc. We manufacture our offered beauty products, but purchase packaging materials and components such as make-up brushes from our suppliers. According to the F&S Report, our ability to offer an extensive range of beauty products covering not only one but three categories, as well as beauty bags that can be included in gift sets of beauty products, and complement our beauty product offerings, is a factor which differentiates us from our competitors.

**Design and development capabilities**

We consider our design and development capabilities are value-added services to our customers. As at the Latest Practicable Date, the design team of beauty products and beauty bags is headed by our chief designer based in Hong Kong with approximately 18 years of experience in the design industry. We are also supported by a senior designer based in the PRC, who possesses a design related graduation certificate. Our designers attended tradeshows and exhibitions to keep abreast with the latest market trends and knowhow and strive to design and develop new products to meet customers' demands and needs, as well as respond to evolving trends and changing consumer tastes. Our research and development team also consists of four technicians, one of whom possesses a science related graduation certificate, as well as one manager and one supervisor who also possess science related graduation certificates. We are also supported by a development engineer who is a qualified cosmetics formulator by the National Vocational Qualification Examination Certification Centre\* (全國職業資格考試認證中心).

**Quality control system**

We place strong emphasis on the quality of our product offerings and have therefore implemented a quality control system that complies with international standards. We maintain quality control throughout our production process, from the sourcing of raw materials and supplies to the manufacturing processes as well as the delivery of finished products. The Cosbe Facility first obtained ISO 9001 and GMPC certifications in 2006 and 2008, respectively, and continued to conform with such standards up to the Latest Practicable Date.



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## BUSINESS

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The Cosbe Facility has also gone through and passed the factory audits as required by some of our customers during the Track Record Period and complied with their selection requirements. In particular, being a beauty products manufacturer for Customer Group B, we implement quality standards over exported products concerning areas such as environmental and safety concerns etc. Customer Group B has conducted factory audits on the Cosbe Facility during the Track Record Period, and we have passed such factory audits. Our Directors believe that our continuous focus on maintaining quality control standards has enabled us to attain a strong reputation and retain and expand our customer base over the years.

### **Experienced and loyal management**

We have an experienced and loyal management team led by our founder and executive Director, Mr. Or Naam. A majority of our management team members have been with us for over 20 years. Our founder has approximately 14 years of experience in the beauty products industry. The management team led by Mr. Or Naam has diversified experience in accounting and finance, merchandising, sales and marketing, and production. For further information of the experience of our management team, please refer to “Directors, Senior Management and Employees — Senior management”.

Our management team has also developed stable business relationships with major suppliers and customers. We believe that the industry knowledge and diversified experience of our management team together with their knowledge of market trends and customers’ needs constitute an important element of our success and future development, and enables us to respond efficiently to various challenges from the changing market conditions.

### **BUSINESS STRATEGIES AND FUTURE PLANS**

Our goal is to strengthen our position as a beauty products manufacturer and solutions provider of beauty bags to the extent that it can complement our Group’s manufacture of beauty products, and leverage on our competitive advantages to expand our operation scale and increase our profit. We plan to achieve this goal by (i) increasing our production capabilities and capacities; (ii) expanding our Hong Kong headquarters to cope with the expansion of our operations; and (iii) conducting promotional and marketing activities such as participating in local and global beauty exhibitions to improve our branding and exposure to customers. For further details on our business strategies and future plans, please refer to “Future Plans and Use of Proceeds — Business strategies and future plans”.

## BUSINESS

### OUR PRODUCTS

The range of beauty products offered by our Group can be categorised as (i) colour cosmetics; (ii) toiletries; and (iii) fragrances, which are principally sold to customers under our own brands or their own brands. The target end-users of our products are mostly teenagers (such as high school students) and adults, but we have also sold to our customers beauty products manufactured for children of aged three and above during the Track Record Period. We manufacture our beauty products in-house but also source packaging materials and components such as make-up brushes from our suppliers. Our beauty products are principally sold in seasonal gift sets comprising two or more items, or otherwise as seasonal standalone products, for sale during holiday and festive seasons. To a lesser extent, our beauty products are sold as non-seasonal standalone items for everyday use. Beauty products we sold during the Track Record Period included, among others, lip gloss, eye shadow, blush, shower gels, body lotions and perfumes. We also design and sell different types of beauty bags including but not limited to tote bags, packaging bags, cosmetics bag set, cosmetics clutch and pouches. During the Track Record Period, our beauty products and beauty bags were also sold under our own brands, namely “Pink Viva”, “Secret Lace” and “Gorgeous Girl Forever”, to one of our top five customers, Customer B (U.S.).

The following table sets out our quarterly revenue by product category for the two years ended 31 December 2016 and revenue by product category for the four months ended 30 April 2016 and 2017:







	Revenue												Four months ended	
	Year ended 31 December											30 April		
	2015					2016					2016	2017		
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total				
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	%	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	%	<i>HK\$'000</i>	<i>HK\$'000</i>	
												(Unaudited)		
<b>Beauty products</b>														
Colour cosmetics	11,630	7,567	58,859	7,367	85,423	50.0	7,103	2,814	62,404	14,462	86,783	52.6	7,984	9,264
Fragrances	1,934	2,021	2,942	3,295	10,192	6.0	2,235	2,003	—	2,566	6,804	4.1	2,235	2,331
Toiletries	107	92	11,020	567	11,786	6.9	1,998	7,793	10,072	2,223	22,086	13.4	2,224	2,094
Sub-total for beauty products	13,671	9,680	72,821	11,229	107,401	62.9	11,336	12,610	72,476	19,251	115,673	70.1	12,443	13,689
<b>Beauty bags</b>	14,505	21,475	15,927	11,499	63,406	37.1	9,314	18,470	19,742	1,899	49,425	29.9	12,954	10,341
<b>Total</b>	28,176	31,155	88,748	22,728	170,807	100.0	20,650	31,080	92,218	21,150	165,098	100.0	25,397	24,030

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## BUSINESS

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Set out below are some of the products that we have sold during the Track Record Period:

<u>Product category</u>	<u>Key products</u>	<u>Sample product picture</u>	<u>Shelf life (Months) (Approximate)</u>
Colour cosmetics	Gift set		36
Toiletries	Shower gel	 	36
	Body lotion		36
	Mist spray		36
Fragrances	Perfume		36

## BUSINESS

<u>Product category</u>	<u>Key products</u>	<u>Sample product picture</u>	<u>Shelf life (Months) (Approximate)</u>
Beauty bags	Pouches		N/A
			
	Tote bag		N/A
	Packaging bag		N/A
	Cosmetics clutch		N/A
	Cosmetics bag set		N/A

The following table sets out our range of unit selling price by product category for the Track Record Period:

	Range of unit selling price											
	Year ended 31 December						Four months ended 30 April					
	2015			2016			2016			2017		
	<u>Low</u>	<u>Median</u>	<u>High</u>	<u>Low</u>	<u>Median</u>	<u>High</u>	<u>Low</u>	<u>Median</u>	<u>High</u>	<u>Low</u>	<u>Median</u>	<u>High</u>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Beauty products</b>												
Colour cosmetics	0.4	14.7	194.7	1.1	37.0	96.9	1.4	6.8	57.4	1.4	10.1	199.3
Fragrances	5.1	11.3	17.8	8.3	10.7	30.0	8.3	10.2	12.9	2.3	10.7	20.1
Toiletries	0.5	15.6	35.7	0.1	15.1	36.8	0.1	15.2	15.2	0.8	2.1	15.9
<b>Beauty bags</b>	1.7	16.0	173.6	1.6	13.1	81.9	1.6	12.8	76.3	0.5	32.6	110.1

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## BUSINESS

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The following table sets out our average selling price by product category for the Track Record Period:

	Average selling price			
	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Beauty products</b>				
Colour cosmetics	10.2	18.0	6.2	10.1
Fragrances	11.2	11.7	10.2	10.3
Toiletries	10.6	4.8	2.4	2.0
<b>Beauty bags</b>	10.6	10.1	7.9	13.0

For the two years ended 31 December 2016, the average selling prices of colour cosmetics were approximately HK\$10.2 and HK\$18.0, respectively, representing an increase of approximately 76.5%. The increase was primarily a result of our Customer A (our largest customer in 2016 and which did not place orders with us in 2015) placing beauty products orders (which primarily consist of colour cosmetics gift sets) in 2016 with an average selling price higher than that of our average selling price in HKD for the year ended 31 December 2015.

For the two years ended 31 December 2016, the average selling prices of toiletries were approximately HK\$10.6 and HK\$4.8, respectively, representing a decrease of approximately 54.7%. Such decrease was primarily attributable to the substantial increase in sales volume of orders placed by our PRC customers in 2016 with a lower average selling price in HKD than our average selling price for the year ended 31 December 2015. The lower average selling price is mainly attributable to the variation of products sold to PRC customers, and is expected to be recurring.

For the four months ended 30 April 2016 and 2017, the average selling prices of colour cosmetics were approximately HK\$6.2 and HK\$10.1, respectively, representing an increase of approximately 62.9%. The increase was primarily a result of the change in product mix of purchase orders from our customers.

For the four months ended 30 April 2016 and 2017, the average selling prices of beauty bags were approximately HK\$7.9 and HK\$13.0, respectively, representing an increase of approximately 64.6%. The increase was primarily a result of the change in demand and style of beauty bags requested by our customers.

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## BUSINESS

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The following table sets out the average selling price of our beauty products by product type for the Track Record Period:

	Average selling price			
	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Standalone beauty products				
<i>(Note 1)</i>	6.1	4.0	4.3	5.7
Gift sets <i>(Note 2)</i>	16.1	27.0	13.0	70.0

*Notes:*

1. Standalone beauty products comprise seasonal and non-seasonal standalone beauty products.
2. Gift sets represent seasonal beauty products gift sets.

For the two years ended 31 December 2016, the average selling prices of gift sets were approximately HK\$16.1 and HK\$27.0, respectively, representing an increase of approximately 67.7%. The increase was a result of our Customer A's placing of beauty products orders in 2016 as explained above.

For the four months ended 30 April 2016 and 2017, the average selling prices of gift sets were approximately HK\$13.0 and HK\$70.0, respectively, representing an increase of approximately 438.5%. The reason for the increase was a result of the sale of certain gift sets of beauty products to one of our customers which contained various components.

The following table sets out the average selling price of our beauty products by mode of operation for the Track Record Period:

	Average selling price			
	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
ODM	15.3	43.5	—	70.0
OEM	9.1	7.3	5.1	5.7

## RAW MATERIALS AND SUPPLIES

The principal raw materials we use for beauty products production include chemicals such as surfactants, emulsifiers, stabilisers, oils, waxes, colour pigments, fragrances and extracts, and packaging materials such as labels, caps, bottles, cases, boxes and beauty bags. We also source components such as beauty tools, make-up brushes and nail separators for inclusion in our seasonal beauty products gift sets.



products, and as a result, the beauty bags manufacturing industry is more competitive. As such, we have resolved to continue to focus on manufacturing beauty products (particularly non-seasonal standalone beauty products) going forward. Upon receipt of beauty bags from our external manufacturers, we would conduct quality control inspections and only accept those beauty bags delivered which are up to standard. For details, please refer to “— Quality control”.

During the Track Record Period, our Group purchased raw materials and supplies from over 300 pre-approved suppliers. We generally have alternative sources of supply for the same kind of raw materials and supplies and hence, the loss of any single supplier would not have a material impact on our operations. Save for the Purchase Framework Agreement, we do not have any long-term contracts with our suppliers and we are free to source the same raw materials or supplies from a number of suppliers. We believe this arrangement is advantageous to us in terms of maintaining a broad supply network to ensure that we source raw materials and supplies that are of quality and competitively priced.

### **Selection of suppliers**

In order to ensure the quality of supplies which would enhance consistency in our product qualities, we have a strict system for selecting our suppliers. We have adopted and implemented written guidelines and policies governing our procedures in selecting new suppliers and monitoring the on-going performance of the existing suppliers. Prior to engaging the suppliers, our sourcing team would conduct on-site visits to understand the quality of their products, their manufacturing processes and quality control systems and their ability to comply with our specific quality requirements. The factors we consider in selecting suppliers include size of their operation, quality, reliability and timeliness of delivery, as well as general market reputation. We would also demand our chosen suppliers to comply with relevant local and industrial quality control standards and perform quality tests on the supplied materials.

We maintain a list of approved suppliers for each type of raw materials and supplies, and the list is subject to periodical review and re-assessment. For new suppliers that have passed our preliminary assessment, as an extra precautionary measure, we would purchase from that supplier for three times to ensure no problems arise and no defects are found before the supplier can be added to our list of approved suppliers. Our quality control team would also provide regular reports and updates for annual re-assessment. All raw materials and supplies provided by our suppliers have to comply with our quality control requirements, details of which are set out in “— Quality Control”.

We typically obtain quotations from multiple suppliers before offering a price quote to our customers. We would usually negotiate various terms of engagement with our suppliers, including the total production costs, payment terms as well as delivery method and schedule, and would choose the most competitive supplier in terms of, among others, quality, timeliness of delivery, price and after-sales services. Some of our customers, such as Customer Group B also require our suppliers to comply with relevant standards and laws including those pertaining to labour, worker safety and environment. As such, in respect of orders placed by those customers, we select suppliers that have complied with such standards and laws.



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## BUSINESS

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Some of our suppliers such as those that supply certain essence or fragrance oils are designated by our customers. We purchase such essence or fragrance oils from those designated manufacturers for further processing into bottled fragrances. Customer-designated suppliers are still subject to our inspection and review process.

### **Purchase and inventory policies**

We procure raw materials and supplies through our purchasing department and substantially all of our raw materials and supplies are supplied by suppliers located in the PRC, while the remaining suppliers are located in Canada, Hong Kong and Vietnam. We generally purchase raw materials and supplies after receiving orders from customers to minimise inventory risk.

### **Salient terms of a typical purchase transaction**

Save for the Purchase Framework Agreement, which is required under the GEM Listing Rules, our Directors do not consider it is necessary to enter into any long-term agreement with any supplier, which is in line with industry practice, and instead, our Group would purchase supplies on a confirmed order basis. We maintain a standard template of our supply agreement and purchase order, which typically contains, *inter alia*, the type of product, quantity, unit price and the total transaction amount, as well as the shipment terms and quality standards. For our purchase of beauty bags, in order to fulfil customer's quality and/or compliance requirements, we will commission third party test companies to conduct sample testing on the finished products to ensure they are in accordance with our quality standards, and if they are not, the supplier will be liable for our loss arising from the sub-standard product. Our suppliers of raw materials and other supplies are usually required to make delivery to our warehouse at their own costs on or before a specified date, while our beauty bags suppliers will deliver the finished products to the port in the PRC after we performed inspection of finished products to our satisfaction. We will then arrange shipment to our customers. Our suppliers provide us with different credit terms which can be generally categorised as follows: (1) the requirement of a deposit at the time of order placement with the balance to be paid after shipment; (2) 20 to 60 days after shipment; or (3) month end of the order date and 30 days end of month. Payment is generally made by bank transfer and settled in RMB. The time for sourcing our supplies ranges from approximately 7 to 15 days for chemicals and approximately 50 to 60 days for other supplies after placement of orders.

### **Our top five suppliers**

For the Track Record Period, purchases from our five largest suppliers amounted to approximately 40.6%, 32.9% and 53.0%, respectively of our total purchase costs. During the Track Record Period, two of our top five suppliers are connected persons of our Company and supplied our Group with beauty bags. For the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, the total purchase costs of beauty bags amounted to approximately HK\$42.5 million, HK\$31.4 million, HK\$7.5 million and HK\$7.1 million, representing approximately 44.4%, 34.0%, 47.2% and 49.1% of our total purchase costs, respectively. Purchase of beauty bags from the two connected suppliers amounted to approximately HK\$15.9 million, HK\$13.3 million and HK\$4.5 million for the Track Record Period, representing approximately 16.6%, 14.4%, and 30.7% of our total purchase costs, respectively. Baoma, a connected person of our Company, was our largest supplier during the Track Record Period, and accounted for approximately 13.7%, 14.4% and 30.7% of our total purchase costs for the Track Record Period,

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## BUSINESS

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respectively. Please refer to “Connected Transactions — Non-exempt continuing connected transactions — 5. Purchase of beauty bags from Baoma” in relation to our purchases from Baoma. The other connected supplier, Jinfeng, is in the process of voluntary deregistration as at the Latest Practicable Date. Our Directors confirm that the cessation of supply of beauty bags from Jinfeng will not have any material adverse impact on our Group’s operation since alternative suppliers are readily available.

Save for the purchases from Baoma and Jinfeng, none of our Directors or their respective close associates or any of our existing Shareholders, whom to the knowledge of our Directors owns more than 5% of our Company’s issued share capital, has any interest in any of our top five suppliers during the Track Record Period. None of our top five suppliers was also our customer during the Track Record Period.

### For the four months ended 30 April 2017

<u>Name of supplier</u>	<u>Principal business activities</u>	<u>Number of years of relationship as at the Latest Practicable Date (approximate)</u>	<u>Material supplied</u>	<u>Credit terms</u>	<u>% to total purchase costs of our Group (approximate)</u>
Baoma	Bag and packaging material manufacturer	10	Beauty bags and packaging material	30 days end of month	30.7
Supplier D	Bag manufacturer	3	Beauty bags	30 days end of month	14.3
Supplier F	Chemicals manufacturer	4	Chemicals	30 days end of month	2.7
Supplier B	Bag and packaging material manufacturer	3	Beauty bags and packaging material	30 days end of month	2.7
Supplier G	Packaging material manufacturer	2	Packaging material	30 days end of month	2.6

### For the year ended 31 December 2016

<u>Name of supplier</u>	<u>Principal business activities</u>	<u>Number of years of relationship as at the Latest Practicable Date (approximate)</u>	<u>Material supplied</u>	<u>Credit terms</u>	<u>% to total purchase costs of our Group (approximate)</u>
Baoma (Note 1)	Bag and packaging material manufacturer	10	Beauty bags and packaging material	30 days end of month	14.4
Supplier A	Packaging material manufacturer	4	Beauty bags and packaging material	End of month	6.6
Supplier B	Bag and packaging material manufacturer	3	Beauty bags and packaging material	30 days end of month	4.3
Supplier C	Packaging material manufacturer	2	Packaging material	End of month	4.0
Supplier D	Bag manufacturer	3	Beauty bags	30 days end of month	3.6

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### For the year ended 31 December 2015

<u>Name of supplier</u>	<u>Principal business activities</u>	<u>Number of years of relationship as at the Latest Practicable Date</u> <i>(approximate)</i>	<u>Material supplied</u>	<u>Credit terms</u>	<u>% to total purchase costs of our Group</u> <i>(approximate)</i>
Baoma <i>(Note 1)</i>	Bag and packaging material manufacturer	10	Beauty bags and packaging material	30 days end of month	13.7
Supplier D	Bag manufacturer	3	Beauty bags and packaging material	30 days end of month	10.1
Supplier B	Bag and packaging material manufacturer	3	Beauty bags and packaging material	30 days end of month	9.1
Supplier E	Packaging material manufacturer	3	Components	15% deposit with balance 20 days after receipt of products	4.8
Jinfeng <i>(Note 2)</i>	Bag manufacturer	5	Beauty bags	30 days end of month	2.9

*Notes:*

1. Baoma is a connected person of our Company. For further information, please refer to “Connected Transactions — Connected persons”.
2. Jinfeng is a company owned by cousins of Mr. Or Naam and Mr. Or Huen, our executive Directors. Jinfeng is therefore a connected person of our Company pursuant to Chapter 20 of the GEM Listing Rules. Jinfeng is in the process of voluntary deregistration as at the Latest Practicable Date.

## SALES AND MARKETING

As at the Latest Practicable Date, our sales and marketing department consists of four staff in the PRC headed by our Hong Kong office with a team of five staff, and overseen by Mr. Or Naam and Ms. Chan. Further information on Mr. Or Naam and Ms. Chan are set out in “Directors, Senior Management and Employees — Directors”.

Our sales and marketing efforts have focused on the provision of competitive prices, reliable and timely delivery, and quality products and services. We have established a long term relationship with our major customers and our new customers may be referred to us by our existing customers. We therefore focus on manufacturing and/or selling quality assured products to maintain our reputation in the industry.

We have a close working relationship with our customers throughout the sales process from the product design and development stage to production phase and product delivery. We communicate with our key customers to better understand their needs and produce products to match the desired image of their brands. Representatives from our customers may visit our showroom in our Hong Kong office to discuss product designs and ideas and tour the Cosbe Facility.

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Every year, we will generally provide proposals on our beauty products to our customers. Such proposals would include product and graphic designs, product mix and layout and quotation based on cost plus model for their consideration. An order will be awarded to the selected design/proposal by our customers. As our beauty products sold during the Track Record Period are mainly seasonal gift sets and standalone items targeted for holiday and festive seasons, they are typically one-off products and orders are generally not recurring in nature. The type and number of products purchased by our customers vary from year to year depending on, among others, the marketing plan and budgets of our customers of the relevant year. Therefore, our financial performance may fluctuate from year to year depending on the mix of products in our customers' purchase orders.

Going forward, we will place our management's sales focus on beauty products, particularly non-seasonal standalone beauty products, and to a lesser extent on beauty bags where it can complement our sale of beauty products. For further details, please refer to “— Sales and marketing — Customers” and “Future Plans and Use of Proceeds — Business strategies and future plans — (1) Increase our production capabilities and capacities — (ii) Rationale for our strategy to develop and sell more non-seasonal standalone beauty products not only for the holiday and festive seasons but all year round (“Strategy”)”.

### Pricing

We generally adopt a cost plus pricing approach but will also take into account our customers' budget when determining pricing. Our customers often provide us with their suggested retail price and budget. We will then price our products based on factors such as the quantity ordered, raw material price, buffer for foreign exchange risk, production costs and transportation costs (if any). During the Track Record Period, we did not provide any sales incentives to our customers and do not intend to provide sales incentives to them in the future other than to Customer Group E. Save for the master agreement with Customer Group E which contains a term on rebate, none of the agreements with our customers contain any terms on sales incentives. Our Directors expect that there will be no material impact on our Group's cost structure as a result of the foregoing.

### Sales markets

During the Track Record Period, over 78% of our revenue was derived from sales to customers in the U.S. The following table sets out the breakdown of our revenue categorised by geographical locations of our customers for the Track Record Period:

	Year ended 31 December				Four months ended 30 April			
	2015		2016		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)							
U.S.	145,939	85.4	145,507	88.1	20,451	80.5	18,951	78.9
PRC	6,291	3.7	6,047	3.7	1,085	4.3	1,802	7.5
UAE	10,529	6.2	3,377	2.0	1,644	6.5	3,009	12.5
United Kingdom	5,283	3.1	5,066	3.1	1,130	4.4	199	0.8
Other countries ( <i>Note</i> )	2,765	1.6	5,101	3.1	1,087	4.3	69	0.3
<b>Total</b>	170,807	100.0	165,098	100.0	25,397	100.0	24,030	100.0

*Note:* As far as the two years ended 31 December 2016 are concerned, other countries mainly include Germany, Canada, Sri Lanka and Fiji. As far as the four months ended 30 April 2016 and 2017 are concerned, other countries comprise Germany and Fiji.

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## BUSINESS

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### Customers

Our customers mainly include retailers, beauty product brand owners and trading companies. For the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, our sales to retailer and non-retailer customers amounted to approximately HK\$102.7 million, HK\$103.6 million, HK\$13.3 million and HK\$16.4 million, and approximately HK\$68.1 million, HK\$61.5 million, HK\$12.1 million and HK\$7.6 million, respectively.

For the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, we had 33, 26, 19 and 17 customers, respectively, and 22 out of the 40 customers in total during the Track Record Period had placed purchase orders with us in at least either two of the three financial years ending 31 December 2017. All of our customers are Independent Third Parties. The following table sets out a breakdown of our retailer and non-retailer customers for the Track Record Period:

<u>Type of customer</u>	<u>Year ended 31 December</u>		<u>Four months ended 30 April</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
Retailer	18	16	13	11
Non-retailer ( <i>Note</i> )	<u>15</u>	<u>10</u>	<u>6</u>	<u>6</u>
<b>Total</b>	<u><u>33</u></u>	<u><u>26</u></u>	<u><u>19</u></u>	<u><u>17</u></u>

*Note:* Non-retailer customers mainly include beauty product brand owners and trading companies.

The reason for the decrease in customers for the year ended 31 December 2016 as compared to the year ended 31 December 2015 was mainly due to further shifting of management's sales focus from beauty bags to beauty products (particularly non-seasonal standalone beauty products), which reduced our number of customers for beauty bags. The composition of our top five customers remained stable during the Track Record Period.

Notwithstanding that beauty bags accounted for over 29% of our Group's revenue during the Track Record Period with gross profit margins of approximately 27.0%, 37.4%, 36.9% and 33.9% for the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, respectively, the circumstances leading to and the commercial rationale for the shift of management's sales focus from beauty bags to beauty products (particularly non-seasonal standalone beauty products) are as follows:

- Our Directors are of the view that the beauty products industry has higher growth potential and is more promising as compared to the beauty bags industry (which is a mere sub-segment of the beauty products industry as described in the F&S Report). Under the F&S Report, beauty bags fall under the personal care accessories sub-segment of the toiletries categories. According to the F&S Report, among the five categories of beauty products, the growth rate of the U.S. retail sales value of the toiletries category

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(which includes beauty bags) is expected to have the second lowest growth rate of CAGR of 1.9% for the five years from 2017 to 2021, while colour cosmetics is expected to have the highest growth rate of CAGR of 4.8% for the corresponding period. Given the slow growth rate of the toiletries category in the next five years, our Directors consider that the beauty bags industry is also likely to become more competitive in terms of pricing and profit margin for the sale of beauty bags may decrease in the long run.

- Our ability to build and maintain customer loyalty with our customers of beauty products is another reason which supports our shift of management's sales focus from beauty bags, notwithstanding that the gross profit margins of beauty bags during the Track Record Period are comparable to that of beauty products. The design, development and manufacture of beauty products are more sophisticated and require more advanced and in-depth technology as opposed to beauty bags. Our technical knowhow allows us to provide value added beauty products design and development services to the customers, which in turn helps strengthen our customers' loyalty in appointing us to develop new products. Whereas for the design, development and sale of beauty bags, low technical knowhow is required, therefore, industry entry barrier is low, market competition is fierce in terms of product pricing and hence customer loyalty is weak given that they have different options for purchasing beauty bags. Accordingly, focusing management's sales efforts on beauty products (particularly non-seasonal standalone beauty products) allows us to capitalise on our Group's competitive strength in technical knowhow so as to maintain customer loyalty. As such, we have allocated and will continue to allocate more resources on strengthening our position as a beauty products manufacturer to increase our competitiveness. As we plan to develop and sell more non-seasonal standalone beauty products (details of which are set out in "Future Plans and Use of Proceeds — Business strategies and future plans") and product quality consistency is essential to the manufacture of non-seasonal standalone beauty products and requires machineries and systems with a higher level of precision, following the upgrade of our production facility, our Directors believe that we will be more apt in manufacturing non-seasonal standalone beauty products and be more confident in maintaining customer loyalty as such orders are expected to be placed with us on a regular and recurring basis.
- Based on the understanding of our Directors, the beauty bags sold to our customers are normally for their promotional purposes and is subject to their promotion and marketing plan as well as budget of that particular year. Beauty bags used as promotional and give away items from retailers and beauty product brand owners act as a marketing channel to stimulate end-customers' desire to purchase their beauty products and such items generally will not generate revenue and cannot always be used otherwise the novelty/gift concept would diminish. Our Directors are therefore of the view that focusing management's sales efforts on our customers' main source of revenue, i.e. their beauty products, especially those for sale all year round, will in turn enable us to secure the business relationship with our customers and generate revenue on a more stable and recurring basis.

- While outsourcing the manufacturing of beauty bags to external manufacturers is a practical business model as it does not utilise our Group's production capacity for our beauty products, such model may present risks to our Group and it may be difficult for our Group to drive the growth of our profit margin even further as we cannot directly control production costs. Labour costs and raw material costs in relation to the manufacture of beauty bags may increase in the long run, and our Directors believe that the increase in such costs is likely to be passed onto our Group as a customer of beauty bags manufacturers. However, as we understand that beauty bags sold to our customers are used for their promotional purposes and may not be considered to be particularly value-adding, it may be difficult for us to further pass on the increase in such costs to our customers. Over time, we may have to accept a lower profit margin for our sale of beauty bags in order to be able to maintain market share. Therefore, the shift of our management's sales focus from beauty bags to beauty products (particularly non-seasonal standalone beauty products) is a management strategy to offset this risk.
- In addition, as we do not manufacture beauty bags, the quality control procedures we can monitor are less comprehensive as compared to our manufacture of beauty products where we carry out quality control procedures internally and are able to better monitor and scrutinise the process. Further, in case our customers of beauty bags demand a shorter lead time for beauty bags, our Group would result in taking on more risk in terms of product pricing and quality. This is due to the reasons that (i) beauty bags manufacturers are likely to increase their costs to accommodate the time constraint for production; and (ii) the quality of the beauty bags may be hard to maintain at a similarly exacting standard as compared to when the lead time is longer.

### **Sales agreements**

After our customers confirm their orders with us, we would issue individual sales confirmation to all of our customers, which would state, among others, the quantity of products required, the product specifications, purchase price for that particular order, method and terms of delivery and payment terms. We enter into master agreements with some of our customers. The master agreements set out, among others, the payment terms, shipping terms, title of products, product testing, termination, etc. Purchases are still placed with us by individual purchase orders, we would then issue individual sales invoices to our customers. According to the F&S Report, it is not an industry norm for customers of beauty products manufacturers to commit to an annual minimum purchase orders with such beauty products manufacturers under the master agreements.

**BUSINESS**

We have entered into master agreements with four of our top five customers during the Track Record Period. Set out below are the salient terms of the master agreements with Customers A and D and Customers Group B and E.

	<b>Customer A</b>	<b>Customer Group B (Note J)</b>	<b>Customer D</b>	<b>Customer Group E (Note 2)</b>
	<b>(U.S.)</b>	<b>(U.K.)</b>		
Term and expiry date	Initial period of one year commencing on 1 August 2016, and the initial period shall automatically extend for successive one year periods unless and until either party notifies the other	No specified term, continue in effect until terminated	Commencing on the date of the first purchase order to 31 December 2015, which shall be automatically renewed for subsequently terms of one year unless any party provides written notice to the other prior to the expiration of the then current term	From 30 November 2013 and continue in effect until terminated
Exclusivity	No	No	Specified products are manufactured exclusively for Customer D	No
Certification	No	Factory capability and capacity audit	ISO 9001 and certified by Customer B (U.S.) (as the products we sold to this customer are ultimately sold to Customer B (U.S.)), and passing ratings of ethical standards, security audits and factory capability and capacity audits	No
Sales incentive/ Rebate (%)	No	No	No	Customer Group E may notify us of its standard rebate programmes and we agree to comply with the terms of its standard rebate programmes as updated from time to time. During the Track Record Period and up to the Latest Practicable Date, the total amount of rebate granted to Customer Group E was approximately HK\$0.1 million



**BUSINESS**

	Customer Group A (U.S.)	Customer Group B (Note 1) (U.K.)	Customer D	Customer Group E (Note 2)
Pricing policy	Unit price of the products are fixed for a year	No	No	Inclusive of all packing, shipping, delivery costs to the delivery point specified in the purchase order, applicable taxes, excises, duties and any other charges related to the manufacture, delivery and sale of the products
Credit and payment terms	Not stated, but in practice, the credit term offered by our Group was 30 days after shipment and the actual trade receivable turnover days of Customer A for the year ended 31 December 2016 was approximately two days	Letter of credit/open account of 60 to 90 days after shipment	Letter of credit/open account of 60 days after shipment	45 days after receipt of our invoice
Maintenance of product liability insurance	Yes	Yes	Yes	Yes
Return of defective products	Any product may be rejected by Customer A if it is not produced, sold, shipped and/or delivered in compliance with the terms of the agreement or otherwise does not conform to the applicable specifications or purchase order	Customer B (U.S.) may return to us our products if they are, among others, defective or nonconforming; or returned to Customer B (U.S.) by its customer	Yes, in the context of the rejection of delivered goods within 90 days of delivery	Customer Group E may require us to replace any non-conforming products rejected or grant to Customer Group E a full refund or credit for such products
	We have agreed with Customer B (U.S.) a defective allowance percentage for the handling of returns, which is based on historical return rates and any retail price reductions associated with the returned product	Customer B (U.K.) may reject products if they are defective or otherwise not in conformity with the requirements of the purchase order. Customer B (U.K.) may also require us to (i) repay the retail price paid of rejected products in full; or (ii) repair or replace the rejected products at our risk and expense. We have also agreed with Customer B (U.K.) a defective allowance percentage		
	The cost reflected on a purchase order/our invoice will be the net cost after the deduction of the defective allowance at a set percentage. If actual returns received by Customer B (U.S./U.K.) exceeded the defective allowance negotiated, a claim will be filed against us for the excess amount. If the actual returns received fall below the defective allowance negotiated, the unused portion of the allowance will expire and will not be carried over to the following year			
	For the Track Record Period, return claims filed by Customer Group B (in excess of the defective allowance) was insignificant			

	Customer A	Customer Group B (Note 1)	Customer D	Customer Group E (Note 2)
	(U.S.)	(U.K.)		
Termination Clause	<p>Customer A can terminate the agreement if we are in breach of the agreement, declared insolvent or otherwise suspected to be of financial instability. We can terminate the agreement if Customer A fails to pay undisputed invoiced amounts</p>	<p>The agreement may be terminated if, among others, either party: (i) serves notice on the other; (ii) stops trading or otherwise suspends payment or unable to pay its debts as they fall due</p> <p>Customer B (U.K.) may terminate any purchase or the agreement if we, among others, (i) commit a material breach under the agreement; (ii) breach any ethical policy or standards prescribed by Customer B (U.K.); or (iii) are subject to a change of control (Note 3)</p>	<p>In an event of default which includes either party's failure to perform its contractual obligations, breach of representation or warranty or either party's insolvency</p>	<p>Either party may terminate the agreement by, among others, serving notice on the other party, or being materially in breach of the agreement or any purchase order</p> <p>Customer Group E may terminate the agreement if:</p> <ul style="list-style-type: none"> <li>(i) we failed to pay our suppliers on a timely basis;</li> <li>(ii) there is any change of ownership directly or indirectly of us; (iii) we fail to comply with the obligations etc. (Note 3)</li> </ul>

Notes:

1. Customer Group B comprises two entities within the same group, one of which is a globally renowned chain superstore originated in the U.S., and the other is a supermarket chain in the U.K.
2. Customer Group E comprises two entities within the same group. The master agreement only governs our relationship with one of the entities.
3. We have notified Customer B (U.K.) and Customer Group E in relation to the Reorganisation. As at the Latest Practicable Date, we have received a reply from Customer B (U.K.) acknowledging our change in control as a result of the Reorganisation. Further, given that subsequent to our notification of our change in control as a result of the Reorganisation, we received purchase orders from Customer Group B and Customer Group E and continued to maintain business relationship with them, such as exchange of business correspondence with Customer B (U.K.) and Customer Group E, coupled with our long standing relationship with Customer Group B and Customer Group E of approximately 10 and 16 years, respectively, our Directors considered the fact that we had not obtained from Customer B (U.K.) and Customer Group E affirmative consents to our change in control is not likely to result in such customers terminating their business relationship with us and hence, would not have a material adverse effect on our business.

**Revenue recognition**

We recognise revenue from the sales of goods when the risks, rewards and title to our products have been passed to the customers, which is generally on the date when the goods are delivered to customers and title has passed. For further details of our revenue recognition policy, please refer to our critical accounting policies in “Financial Information — Critical accounting policies”.

**Top five customers**

For the Track Record Period, sales to our top five customers accounted for approximately 78.6%, 76.8% and 84.3% of our revenue, respectively. In the corresponding years, sales to our largest customer accounted for approximately 25.1%, 22.3% and 28.3% of our revenue, respectively. Despite such customer concentration, our Directors consider that we are not reliant on any single customer because we have a range of customers (comprising retailers and non-retailers) during the Track Record Period. Furthermore, as part of our business strategies and future plans, we plan to diversify our customer base by expanding our product portfolio through developing and producing more non-seasonal standalone items for everyday use going forward. For further information on our business strategies and future plans, please refer to “Future Plans and Use of Proceeds — Business strategies and future plans”.

None of our Directors, their respective close associates and existing Shareholders, whom to the knowledge of our Directors owns more than 5% of our issued share capital, has any interest in our top five customers during the Track Record Period. None of our top five customers was also our supplier during the Track Record Period.

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The tables below set forth certain information of our top five customers during the Track Record Period:

### For the four months ended 30 April 2017

Name of customer	Location	Scale of operation (Note 4)	Principal business activities	Number of years relationship as at the Latest Practicable Date (approximate)	Product purchased	Credit terms	% of revenue of our Group (approximate)
Customer C	U.S.	A private company based in the U.S., which operates a 3,000 sq. ft. research and development laboratory with trained personnel specialising in beauty products, provide full scale of quality control, marketing, product development and design.	Beauty products brand owner	6	Colour cosmetics and beauty bags	75 days after shipment	28.3
Customer Group E (Note 2)	U.S.	Its parent company is a company listed on NYSE, which operates approximately 3,000 company-owned specialty stores in U.S., Canada, the U.K. and China. Its brands are sold in more than 700 franchised locations worldwide, and its products are also available online.	Owner of multiple internationally renowned beauty products brands	17	Beauty bags	45 days after shipment	26.8
Customer G	Dubai	Its parent company is a private company based in the UAE and Kingdom of Saudi Arabia, which offers products (including garment, beauty products, toys, etc.) under self-owned brands and franchised brands in over 700 stores in six countries.	Franchisee/ franchisor/ independent brand organisation of garment, beauty products and toys, etc.	12	Colour cosmetics and beauty bags	30 days after invoice date	12.5
Customer D	U.S.	A private company based in the U.S. which operates 10 consumer brands with its products being offered through approximately 100,000 retail outlets in over 60 countries.	Beauty, personal care, wellness haircare and fragrance brand owner	4	Fragrances and toiletries	30 days after actual receipt at customer's warehouse	11.2
Customer H	PRC	A private company based in the PRC, which offers, among others, child nutrition supplies and personal care products, and collaborated with famous cartoon characters' owners from the U.S. and Japan.	Toiletries products brand owner	3	Toiletries	90 days after arrival at customer's specified warehouse	5.5

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**For the year ended 31 December 2016**

Name of customer	Location	Scale of operation (Note 4)	Principal business activities	Number of years relationship as at the Latest Practicable Date (approximate)	Product purchased	Credit terms	% of revenue of our Group (approximate)
Customer A	U.S.	A company listed on NASDAQ, which operates 1,010 retail stores across 48 states in the U.S. and the District of Columbia, which also distributes its products through its website.	Beauty products brand owner	5	Colour cosmetics	30 days after shipment	22.3
Customer Group B (Note 1)	U.S. and U.K.	Headquartered in the U.S., its U.S. entity is a company listed on NYSE, which operates approximately 11,700 retail units under 59 banners in 28 countries and e-commerce websites in 10 countries.	Globally renowned chain superstore group originated in the U.S.	11	Colour cosmetics, beauty bags	L/C at sight or 60 to 90 days after shipment	19.9
Customer C	U.S.	A private company based in the U.S., which operates a 3,000 sq. ft. research and development laboratory with trained personnel specialising in beauty products, provide full scale of quality control, marketing, product development and design.	Beauty products brand owner	6	Colour cosmetics and beauty bags	75 days after shipment	13.3
Customer D	U.S.	A private company based in the U.S. which operates 10 consumer brands with its products being offered through approximately 100,000 retail outlets in over 60 countries.	Beauty, personal care, wellness haircare and fragrance brand owner	4	Fragrances and toiletries	30 days after the date of actual receipt of the products at customer's warehouse	13.2
Customer Group E (Note 2)	U.S.	Its parent company is a company listed on NYSE, which operates approximately 3,000 company-owned specialty stores in the U.S., Canada, the U.K. and China. Its brands are sold in more than 700 franchised locations worldwide, and its products are also available online.	Owner of multiple internationally renowned beauty products brands	17	Beauty bags	45 days after shipment	8.1

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### For the year ended 31 December 2015

Name of customer	Location	Scale of operation (Note 4)	Principal business activities	Number of years relationship as at the Latest Practicable Date (approximate)	Product purchased	Credit terms	% of revenue of our Group (approximate)
Customer C	U.S.	A private company based in the U.S., which operates a 3,000 sq. ft. research and development laboratory with trained personnel specialising in beauty products, provide full scale of quality control, marketing, product development and design.	Beauty products brand owner	6	Colour cosmetics	75 days after shipment	25.1
Customer Group B (Note 1)	U.S., U.K. and PRC	Headquartered in the U.S., its U.S. entity is a company listed on NYSE, which operates approximately 11,700 retail units under 59 banners in 28 countries and e-commerce websites in 11 countries.	Globally renowned chain superstore group originated in the U.S.	11	Colour cosmetics, toiletries, beauty bags	L/C at sight or net 60 days	20.4
Customer D	U.S.	A private company based in the U.S. which operates 10 consumer brands with its products being offered through approximately 100,000 retail outlets in over 60 countries.	Beauty, personal care, wellness haircare and fragrance brand owner	4	Fragrances and toiletries	50% upon shipment and 50% after receipt of product	12.1
Customer Group F (Note 3)	U.S. and Canada	Headquartered in the U.S., its U.S. entity is a company listed on NYSE, with sales operations in 57 countries and territories, and distributed its products in 18 other countries and territories.	Beauty products brand owner	11	Beauty bags	Net 30 days	11.1
Customer Group E (Note 2)	U.S.	Its parent company is a company listed on NYSE, which operates approximately 3,000 company-owned specialty stores in U.S., Canada, the U.K. and China. Its brands are sold in more than 700 franchised locations worldwide, and its products are also available online.	Owner of multiple internationally renowned beauty products brands	17	Beauty bags	45 days after shipment	9.9

*Notes:*

1. Customer Group B comprises three entities within the same group, comprising a chain superstore in the U.S. and the PRC, and a chain supermarket in the U.K.
2. Customer Group E comprises two entities within the same group.
3. Customer Group F comprises two entities within the same group.
4. Based on public information from the respective customers' websites or annual report as at the Latest Practicable Date.

Our Directors consider that we have enjoyed a stable and amicable business relationship with our repeat customers. Given all of our top five customers have three or more years of business relationship with our Group, our Directors believe that our top five customers not continuing to place purchase orders with our Group is remote and unlikely, unless due to unforeseeable factors or factors that are out of our control. During the Track Record Period, we did not have any material disputes with our customers or face any major return of defective products.

Customer Group F did not place substantial orders with us for the year ended 31 December 2016 and did not place orders with us for the four months ended 30 April 2017 because it downsized its business and had lower demand for our products. While Customer A did not place

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orders and Customer Group B did not place substantial orders with us for the four months ended 30 April 2017, the completed sales and confirmed orders they placed with us for the year ending 31 December 2017 amounted to approximately HK\$27.9 million and approximately HK\$35.7 million, respectively, up to the Latest Practicable Date.

### SEASONALITY

Our sales are subject to seasonal fluctuations. Historically, as our beauty products are mostly sold in seasonal gift sets or standalone items, we have experienced higher sales of beauty products in the third quarter each year, which is primarily due to our customers preparing for western festivals that take place in the fourth quarter of the year such as Thanksgiving and Christmas, as the sales demand from the public on gift sets of beauty products are higher during such festivals. In respect of beauty bags, we generally experienced higher sales in the second and third quarters each year, primarily due to our customers preparing for the aforementioned festivals and also the Back-to-School in September.

The following table sets out our quarterly revenue by product category for the two years ended 31 December 2016 and revenue by product category for the four months ended 30 April 2016 and 2017:

	Revenue												Four months ended	
	Year ended 31 December											30 April		
	2015					2016					2016	2017		
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	
(Unaudited)														
<b>Beauty products</b>														
Colour cosmetics	11,630	7,567	58,859	7,367	85,423	50.0	7,103	2,814	62,404	14,462	86,783	52.6	7,984	9,264
Fragrances	1,934	2,021	2,942	3,295	10,192	6.0	2,235	2,003	—	2,566	6,804	4.1	2,235	2,331
Toiletries	107	92	11,020	567	11,786	6.9	1,998	7,793	10,072	2,223	22,086	13.4	2,224	2,094
Sub-total for beauty products	13,671	9,680	72,821	11,229	107,401	62.9	11,336	12,610	72,476	19,251	115,673	70.1	12,443	13,689
<b>Beauty bags</b>	14,505	21,475	15,927	11,499	63,406	37.1	9,314	18,470	19,742	1,899	49,425	29.9	12,954	10,341
<b>Total</b>	28,176	31,155	88,748	22,728	170,807	100.0	20,650	31,080	92,218	21,150	165,098	100.0	25,397	24,030

### RESEARCH AND DEVELOPMENT

Whilst our design team focuses on the development of product layout and packaging designs, our research and development team focuses on the development of and improvement to our chemical-based product formulations which are applied in our beauty products.

We consider the material know-how we possess in relation to the development and manufacture of beauty products comprise the following aspects:

1. Understanding of U.S. and PRC local laws and regulations related to the manufacture and sale of beauty products;

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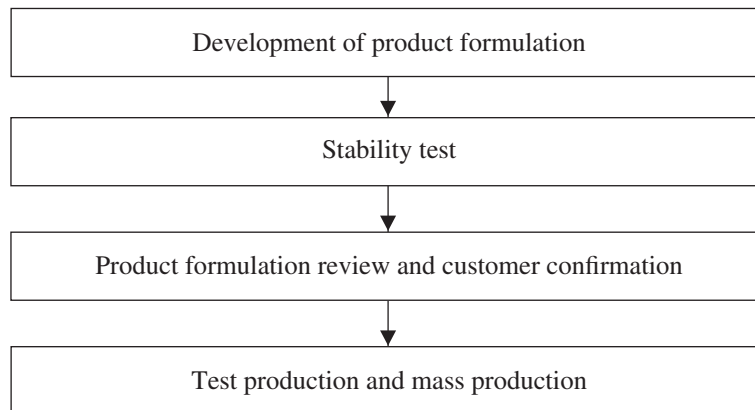
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2. Characteristics and compatibility of raw materials;
3. Stability of product formulation; and
4. Characteristics of production equipment and machineries.

As at the Latest Practicable Date, we had four technicians in our research and development team, one of whom possesses a science related graduation certificate, and one manager and supervisor who also possess science related graduation certificates. We are also supported by a development engineer who is a qualified cosmetics formulator by the National Vocational Qualification Examination Certification Centre\* (全國職業資格考試認證中心).

We develop new product formulations to provide options for our customers. In order to provide a tailor-made service, we would also accept customers' requests to develop new or modify existing product formulations to suit their respective needs and marketing strategies.

Our process for development of product formulations can be illustrated by the flowchart below:



We develop product formulations based on the specific requests of the customers and the relevant regulations and industrial standards. For every product formulation we develop, we will record the volume of raw materials added, product characteristics and formulation testing statistics. Stability tests conducted on the new product formulations include tests under different temperatures and lights (fluorescent light and ultra violet light), as well as freeze/thaw tests over a period of time. If the product formulation passes all relevant tests, we will present it to our customers for their approval, after which the product formulation will first undergo test production prior to mass production.

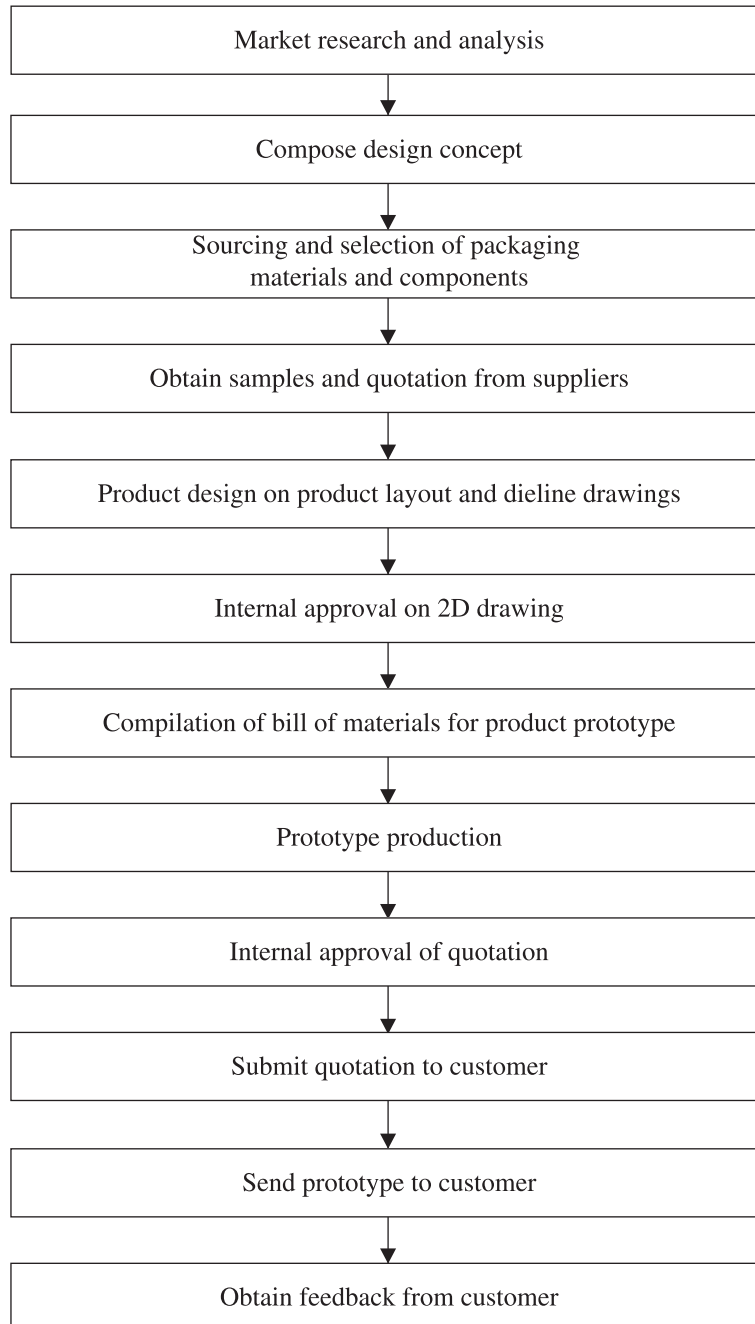
The research and development fees incurred by us during the Track Record Period mainly represent salary expenses of certain research and development staff and certain chemicals. They are responsible for product development as well as the production process. Historically, we have not separately recorded the related costs into separate accounts. Our staff costs are all included in costs of sales. All research and development expenses were expensed off when incurred during the Track Record Period.



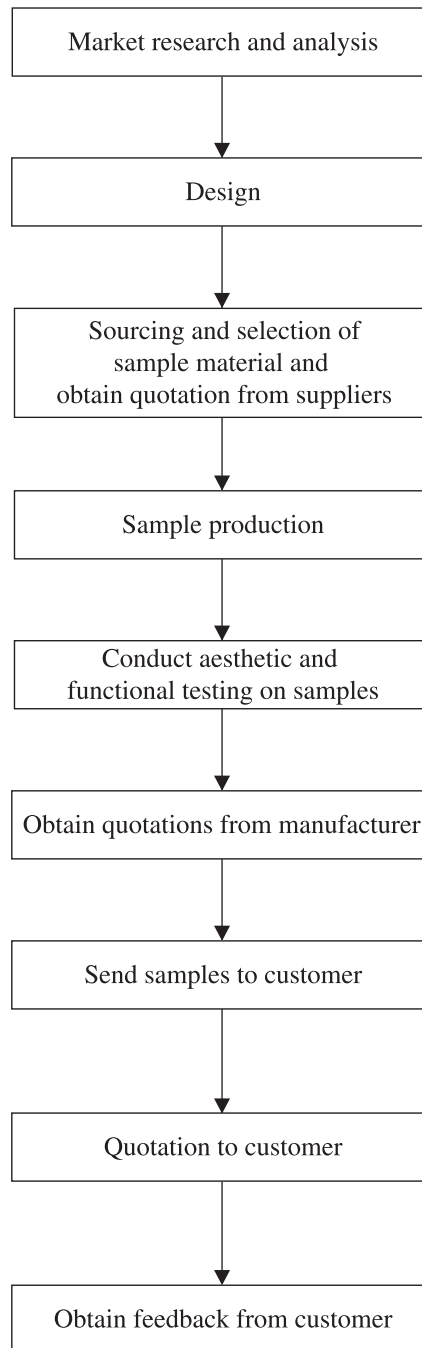
**PRODUCT DEVELOPMENT**

We place strong emphasis on our design and development capabilities for both beauty products and beauty bags. Set out below is the product development work flow for beauty products and beauty bags:

**Beauty products**



**Beauty bags**



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As at the Latest Practicable Date, we have a product design team with two designers, one of whom is our chief designer based in Hong Kong with approximately 18 years of experience in the design industry, and the other is a senior designer based in the PRC, who possesses a design related graduation certificate.

An important step in our product development is the initial understanding of, among other things, our customers' needs and requirements, their pricing strategy, image, as well as their competitors. Market research and analysis is conducted by our product design team. Our channels of market research include trade shows, Internet, magazines, physical visits to retail stores as well as purchasing samples. Our designers attended tradeshows and exhibitions to keep abreast with the latest market trends and strive to design and develop new products to meet customers' demands and needs, as well as respond to evolving trends and changing consumer taste. The information that we obtain provides a general guidance of the trends and preferences of end-consumers and assist us to design our products suiting our customers' needs and ultimately the appetites of the end-consumers.

Our design personnel are responsible for developing conceptual design of our product layout and packaging and our sales team would maintain regular contact with our customers to discuss their requirements and preferences. Development ideas may be initiated by us without any preliminary input from the customer, or upon customers' request, where they will provide us with general ideas on, for example, the concept, colour, trend, and material for our further development. Our engineering unit will then produce prototypes and conduct tests on, among others, temperature resistance test and de-colourisation to ensure stability of our prototypes. For beauty bags, we will also conduct tests on tensile strength. Prototypes that meet our internal and our customers' requirements will be presented to our customers for final approval.

We regularly develop new product designs for presentation to our customers. Changes to our product development may include changes in packaging, formatting, layout and combination of products in a gift set of beauty products. Our design team will choose the designs which they consider will be accepted by our customers. We believe it is an industry practice to develop a wide selection of designs in accordance with the current market trend for our customers to choose from, in order to cater for the business strategy of the customer in that particular year, as well as increasing the chance that our designs will be selected. We also take into account the historical statistics in design selection by our customers in determining the number of designs to be presented to them for consideration. Whilst we present to our customers a selection of designs, they may not select all of our designs subject to their marketing plan and budget of the year. As such, the number of available designs to our customers will not serve as an indication of the number of designs they will ultimately select to place orders with us.

### **PRODUCTION OF BEAUTY PRODUCTS**

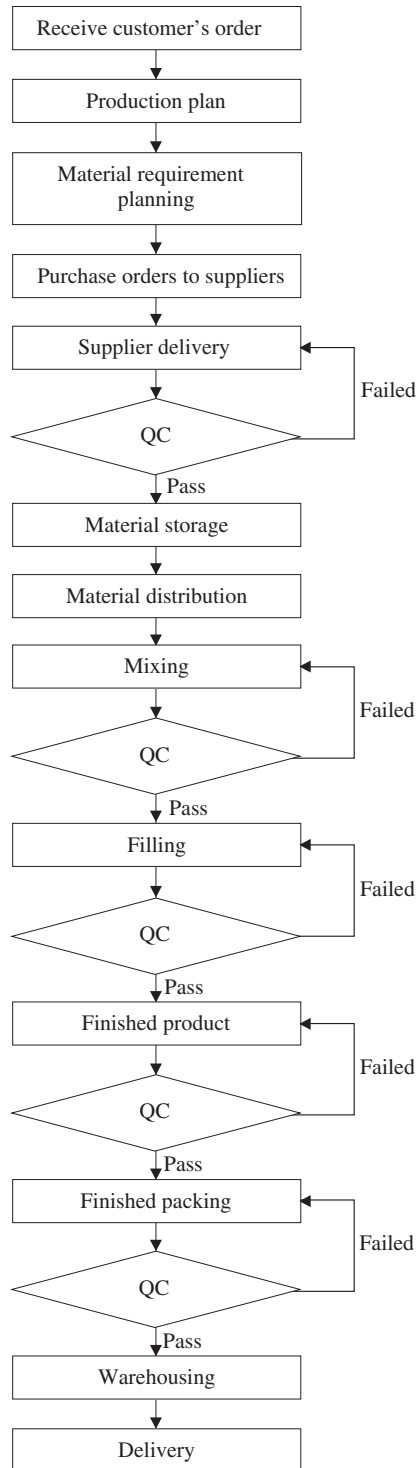
Our beauty products production process at the Cosbe Facility is vertically integrated, from product design and sourcing and procurement of raw materials, to manufacturing and packaging, and delivery and logistics. We believe that such vertical integration enables us to maintain a tight control over material usage, production lead time and product quality. Packaging materials and components which we do not manufacture are sourced from external manufacturers. The production and quality control processes are carried out under close supervision of the management with a high level of involvement and control.

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Our operation process for beauty products production can be illustrated by the flowchart below. The lead time between the placing of orders by our customers to product delivery is generally around 60 to 90 days.



### **Receipt of customer's order**

Purchase orders from our customers are placed with the sales department and subsequently passed to our merchandising unit which will then analyse the order and consolidate all information and distribute the timetable and specifications to other departments/units.

### **Production plan and material requirement planning**

Both our merchandising and PMC units are responsible for monitoring the entire production process to ensure the entire process is smooth and on schedule. Our merchandising unit is also responsible for reporting the progress to our customers. Our PMC unit is responsible for preparing production plans, setting out the manpower allocation, raw material delivery timeline, production timeline, warehousing etc. for each production order. The implementation of the production plans is reviewed regularly to ensure that our operations are on schedule. In general, our sales department would evaluate our production capacities with our production department before accepting a sales order.

### **Purchase of materials and supplies**

Our purchasing department is responsible for the purchase of materials from suppliers upon receipt of the material sourcing lists from our PMC unit. The raw materials and supplies delivered to us are checked by our quality control unit. Random checks on a sampling basis are performed on the raw materials and supplies sourced and any substandard raw materials and supplies are returned to the suppliers. Our PMC unit will then, in accordance with the production plan, request the relevant raw materials and supplies be distributed to the relevant production lines.

### **Mixing**

Our production department manufactures the required products according to the production plans laid down by our PMC unit. The initial stage of production involves mixing different chemicals. Our production process at the Cosbe Facility adheres to ISO 9001 and GMPC standards. In-production quality control is performed during the course of production. Moreover, various product checks and tests are carried out at each stage of production up to product packaging to ensure quality of products. Our quality control personnel would also perform final quality control checks and AQL checking before sending the finished products to the warehouses pending delivery to customers. Please refer to “— Quality control — Beauty products” for further details.

### **Filling**

For our non-powder type beauty products, the bulk will be filled into containers. For our powder type beauty products, the bulk will be pressed and may be baked (an optional process required only for wet powder colour cosmetics such as wet powder eye shadow, in order to give a curved finishing) prior to filling into different wells or containers.

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### **Assembly and packaging**

Our non-powder type finished products are packed into boxes in accordance with customers' requirements and specifications. For our products containing different items, such as our seasonal gift sets, or our eye shadow palettes with multiple colours, we would assemble the different items in accordance with customers' requirements and specifications prior to packing them into boxes.

### **Warehousing and inventories**

We only maintain a level of inventory just enough for our orders as we source raw materials and supplies only upon receipt of customers' orders and finished products are only temporarily stored at our warehouse prior to delivery to our customers. All inventories entering our warehouses are tagged with labels specifying their relevant dates of entry such that we are able to consume available raw materials and supplies and retrieve our finished products on a first-in-first-out basis. During the Track Record Period, we have not encountered any issue with obsolete inventories.

### **Transportation and distribution**

During the Track Record Period, our Group engaged independent third party logistic service providers for the transportation of our products from the Cosbe Facility to the destinations specified by customers. The selection of logistic providers was typically based on quality of services, which is assessed in accordance with timely provision of quotation, professionalism, safety, and capability. Generally, our quotations given to our customers are on EXW or FCA terms (for PRC customers), or FOB or LDP terms (for overseas customers). For delivery to our overseas customers, our products are either delivered to the overseas destination from the PRC directly or via Hong Kong. Delivery costs are already built into our quotations with reference to the agreed delivery terms. Risks associated with transportation and delivery are transferred to our customers at different points of delivery depending on the delivery terms. Delivery terms vary with requests of different customers. Set out below are the points of time of which risks pass to our customers for each delivery term:

<u>Delivery term</u>	<u>When risk passes to our customers</u>
EXW	when the goods have been placed at the customer's disposal (generally at the manufacturer's premises)
FCA	when the goods are delivered to the carrier
FOB	when the goods are loaded on board at the port of shipment
LDP	when the goods are delivered to the location agreed by the customer (generally at their warehouse)

Our Directors confirm that we have not suffered any material loss or paid any material compensation as a result of delays in product delivery during the Track Record Period.

**PRODUCTION MANAGEMENT OF BEAUTY BAGS**

In addition to market research and analysis, as well as design and development, we also provide production management services in respect of our sale of beauty bags.

During the Track Record Period, all of our external manufacturers were located in the PRC and save as disclosed in this prospectus, all of our external manufacturers of beauty bags during the Track Record Period were Independent Third Parties. Our merchandising and PMC units team is responsible for production management which includes, among other things, monitoring production schedule and evaluating performance of the external manufacturers. After customers' confirmation on sales orders with our Group, we would confirm the orders with the relevant manufacturers to produce the beauty bags based on our customers' or our design requirements. Once the orders have been confirmed with our external manufacturers, our staff from our purchasing team will, on a continuing basis communicate with the relevant manufacturers, carry out periodic inspections of semi-finished products at various stages of the manufacturing process and then would carry out a final inspection on the finished products. Finished products will be delivered to the designated port for our further shipment to our customers from the PRC directly or via Hong Kong. The lead time between the placing of orders by our customers to product delivery is generally between 50 to 60 days. Details of our external manufacturers are set out in "— Raw materials and supplies".

**QUALITY CONTROL****Beauty products**

We adhere to strict quality control procedures with an aim to identify, analyse and resolve problems at the early stage of the manufacturing process. We believe that our commitment to maintaining product quality is an important factor to which we attribute our success. We have implemented quality management measures in line with international standards to ensure that our products meet the expectations of our customers. Quality control is maintained at the product development stage as well as throughout our beauty products production process, from the sourcing of raw materials and supplies to the manufacturing processes as well as the distribution of finished products. Quality control is carried out principally by our quality control department which ensures that all incoming raw materials and supplies and outgoing finished products pass through our quality control process and meet our quality control standards. Aspects that we monitor throughout production include, among others, appearance, colour, odour, heat and cold resistance and pH value. We also commission third party test companies to perform heavy metal contents tests and/or microorganism contents tests on our raw materials and beauty products to ensure they comply with the prescribed standards.

We also conduct testing early in the product development stage to ensure newly developed beauty products pass our quality control standards. Tests that we conduct in-house at the product development stage comprise: (i) formula stability test conducted under different temperatures and lights (fluorescent light and ultra violet light); and (ii) tests on compatibility of the product and its packaging under different temperatures. We will then observe whether there is any change to the tested item over a period of time.

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We conduct quality control tests at different checkpoints upon completion of various production stages:

- In respect of incoming raw materials, they are inspected by our quality control personnel on a sampling basis before they are stored at our warehouses. Generally, raw materials from chemical suppliers are accompanied with a “certificate of analysis”, a document which sets out whether the particular material conforms to the requisite PRC national and industrial standards. Defective raw materials will not be used for production.
- During production, we conduct inspection prior to filling on aspects such as colour, odour and microorganism contents to ensure the bulk meets our quality control standards and is suitable for mass production. Only those semi-finished products which pass the quality testing are allowed to proceed to the next stage of production. We have not undergone and do not expect to undergo any animal testing in the development of our beauty products.
- Finished goods are inspected and approved by our quality control department prior to despatch to customers. Finished products which have passed our quality checks are packed into cartons, properly labelled and sent to our warehouse for temporary storage before delivery. We conduct tests to ensure packaged products are not damaged, deformed nor will it leak out of the packaging. We also conduct tests that mimic the environmental conditions during the shipping process to ensure our products can withstand such conditions.

The Cosbe Facility first obtained ISO 9001 and GMPC accreditations in May 2006 and May 2008, respectively, and had maintained such accreditations up to the Latest Practicable Date.

Our beauty products are manufactured according to the relevant quality standards, such as GB Standard. Prior to the sale of our beauty products, we have filed with a service platform operated by 國家食品藥品監督管理總局 (China Food and Drug Administration\*) our beauty products, setting out information such as the product formulation, chemical constituents and product specification.

We have maintained a list of relevant standard, and laws and regulation in relation to our product quality and safety in the jurisdiction that we are operating or selling to. We have designated our quality control personnel to keep regular updates to the list so as to allow our Group to keep pace with the enhanced requirements from time to time.

### ***Product warranty***

We do not provide warranty on our beauty products but they typically have a shelf life of 36 months. We maintain a sealed sample of the beauty product for a period of at least three years which matches with the shelf life of our products.



***Hygiene control measures***

We also monitor the temperature, humidity and sanitary conditions of our production lines and warehouse to ensure stability and quality of our stored raw materials and finished products. We have implemented an internal guideline where we conduct sample checks on the atmospheric bacteria and mould levels of our production lines on a weekly and monthly basis, respectively, to ensure that the aforementioned levels are of acceptable standards such as the Hygiene Standard of Cosmetics Production Enterprises\* (《化妝品生產企業衛生規範》). The Cosmetics Hygiene Supervision Regulations\* 《化妝品衛生監督條例》 provides, among others, that the production facilities of a cosmetics manufacturer have to be clean and the production lines have to comply with the relevant hygiene standards. As set out in the Detailed Rules for the Implementation of Cosmetics Hygiene Supervision Regulations\* 《化妝品衛生監督條例實施細則》, failure to comply with the aforementioned requirements may lead to a warning and an order of rectification within a prescribed period of time. Our production personnel at our production lines also wear face masks and caps throughout the production process. Some personnel which are required to work under a sanitised environment, such as those working on the “mixing” production line, have to wear gowns and shoe covers.

***Factory audit and inspections***

During the Track Record Period, the Cosbe Facility had undergone and passed factory audits as required by some of our customers, who evaluated our factories based on criteria such as occupational health and safety, environment, etc. Some of our customers commission third party companies to perform inspections and quality checks on our finished products at our expense.

***Beauty Bags***

We closely monitor the quality of beauty bags supplied to us. We conduct quality control inspections on beauty bags supplied by external manufacturers. We conduct inspections at three stages comprising the initial stage, the intermediate stage and the final stage. We generally conduct final stage inspection of finished products at the relevant manufacturer’s factory covering areas such as the overall appearance, zipper functions, tensile strength, accessories functions, dimension of products and product safety (such as presence of odour) to ensure the finished products meet the required standards.

***Compliance record***

Our legal advisers as to Hong Kong, U.S. and PRC laws have respectively confirmed that they are not aware of any non-compliance by our Group with the applicable laws and regulations on product safety and quality in their respective jurisdictions in any material respect during the Track Record Period and up to the Latest Practicable Date. In accordance with the standards prescribed under ISO 9001, we have appointed a quality representative who would monitor the implementation of our quality control procedures, devise correction action plans in the event of the uncovering of any issue related to product quality and would implement relevant procedures to improve the situation.

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For instance, during the Track Record Period, we had encountered four incidents whereby certain of our washing liquid products lacked active ingredients. In response to the aforementioned incidents, we have implemented enhanced procedures to ensure such incidents do not reoccur in the future:

- From October 2016 onwards, we have commissioned third party test companies to conduct tests on the active ingredients on selected incoming raw materials of washing liquid products prior to production.
- From January 2017 onwards, we have commissioned third party test companies to conduct tests on the active ingredients on selected semi-finished products (i.e. the bulk) of washing liquid products during production and ensure that such products comply with the relevant standards prior to delivery to our customers.

We also keep a close eye on the changes in the product quality and safety laws and regulations applicable to our Group to ensure improvement on compliance with the product quality and safety law and regulations and are able to implement quality control measures in line with the most updated international and national standards.

As an extra level of precaution and to ensure our Group will duly comply with the relevant laws and regulations on product safety and quality in the PRC, upon Listing, our Group will engage PRC legal advisers to provide updates on the relevant PRC laws and regulations in relation to product liability, quality and safety on a semi-annual basis.

### **Handling and keeping track of customers' complaints and satisfaction**

We have maintained a system for handling and recording customers' complaints and satisfaction. We consider negative comments from customers on product quality, delivery schedule, aftersales services and other comments of dissatisfaction as complaints. We require such complaints and comments to be recorded. Upon receipt of the complaints, we will follow up and analyse the reason of the complaint and inform the relevant departments to make improvements where necessary. We will then inform our customers of the follow up measure and will continuously follow up with them until they are satisfied with the final result as part of our continuous efforts to provide quality services to our customers.

Our products are customised and tailor-made for our customers. Product samples are prepared in accordance with the clients' specifications for confirmation before mass production. Product returns are negotiated with customers on a case-by-case basis, where we consider it important to maintain good long-term business relationships with the complaining customer. We have a series of procedures on dealing with return products and compensation claims from our customers. For requests of product return, we will first assess the reason for return and if it is determined to be our responsibility, we will accept the product return claim and discuss the refund arrangement with our customers. In respect of compensation claims, we will conduct detailed assessment on such claims and our management will be responsible for the approval of compensation amount and method. When the reason for claim is insufficient or unsupported, the claim will be denied and our staff or

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management will negotiate with our customer until such issue is resolved. Given that we have conducted tests and accepted the raw materials and supplies from our suppliers upon delivery, we generally do not claim against our suppliers in the event of receipt of a product return or compensation claim from our customers. We provided Customer Group B with a defective allowance percentage for the handling of returns. For further details on this arrangement, please refer to “— Sales and marketing — Sales agreements”. For the Track Record Period, our total product return and compensation claim was insignificant. Our Group did not experience any major complaints from our customers with respect to our business and operations and did not experience any instances of product recall during the Track Record Period and up to the Latest Practicable Date.

### OUR PRODUCTION FACILITY

As at the Latest Practicable Date, our Group’s production facility is leased from Baoma and are located in Diejin industrial zone in Shantou City of Guangdong Province. The Cosbe Facility operates as our production facility, warehouse and office, which occupies a total gross floor area of approximately 6,000 sq.m. For further details on the lease arrangement, please refer to “Connected Transactions — Non-exempt continuing connected transactions”.

As at the Latest Practicable Date, we operated 14 and 12 production lines for mixing and filling of our beauty products, respectively at the Cosbe Facility. Our beauty products production lines at the Cosbe Facility manufacture five types of products: wax-based colour cosmetic, powder-based colour cosmetic, liquid-type toiletries, emulsion-type toiletries and fragrances. The powder-based colour cosmetic production line is not shared with the other production lines in order to prevent contamination of powder from one product to another.

We are in the course of setting up an additional production facility in Shantou, the PRC, which is expected to be equipped with new machineries of 20 and 19 production lines for mixing and filling of beauty products, respectively. For further details, please refer to “Future Plans and Use of Proceeds — Business strategies and future plans — (1) Increase our production capabilities and capacities — (vii) Implementation of our Strategy by setting up the New Cosbe Facility”.

We generally maintained high utilisation rates of our production lines during the peak seasons in the Track Record Period. The following table sets out the estimated production capacity, actual production volume and utilisation rates for each product category for each of the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017.

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For the year ended 31 December 2015:

Category	Actual monthly production volume		Actual quarterly production volume				Estimated monthly production capacity <sup>(2)</sup>	Estimated quarterly production capacity <sup>(3)</sup>	Utilisation rate <sup>(4)</sup>					
	Monthly average in 2015	Peak season in 2015 <sup>(1)</sup>	Q1	Q2	Q3	Q4			A/G	B/G	C/H	D/H	E/H	F/H
	(Tonne)	(Tonne)	(Tonne)	(Tonne)	(Tonne)	(Tonne)	(Tonne)	(Tonne)	By quarter in 2015	By quarter in 2015	By quarter in 2015	By quarter in 2015	By quarter in 2015	
									Monthly average in 2015	Peak season in 2015	Q1	Q2	Q3	Q4
Colour cosmetics (Wax-based formula)	2.8	13.6	0.1	14.1	16.1	3.1	9.6	28.8	29.2	141.7	0.3	49.0	55.9	10.8
Colour cosmetics (Powder-based formula)	6.9	24.0	1.5	52.8	23.9	4.3	15.6	46.8	44.2	153.8	3.2	112.8	51.1	9.2
Toiletries (Liquid-type formula)	42.2	157.4	—	199.3	225.3	81.4	100.0	300.0	42.2	157.4	—	66.4	75.1	27.1
Toiletries (Emulsion-type formula)	11.5	50.1	—	9.9	89.0	39.7	48.0	144.0	24.0	104.4	—	6.9	61.8	27.6
Fragrances	5.6	19.6	—	38.6	17.6	11.0	22.5	67.5	24.9	87.1	—	57.2	26.1	16.3

For the year ended 31 December 2016:

Category	Actual monthly production volume		Actual quarterly production volume				Estimated monthly production capacity <sup>(2)</sup>	Estimated quarterly production capacity <sup>(3)</sup>	Utilisation rate <sup>(4)</sup>					
	Monthly average in 2016	Peak season in 2016 <sup>(5)</sup>	Q1	Q2	Q3	Q4			A/G	B/G	C/H	D/H	E/H	F/H
	(Tonne)	(Tonne)	(Tonne)	(Tonne)	(Tonne)	(Tonne)	(Tonne)	(Tonne)	By quarter in 2016	By quarter in 2016	By quarter in 2016	By quarter in 2016	By quarter in 2016	
									Monthly average in 2016	Peak season in 2016	Q1	Q2	Q3	Q4
Colour cosmetics (Wax-based formula)	2.1	6.7	0.8	14.1	9.5	1.2	9.6	28.8	21.9	69.8	2.8	49.0	33.0	4.2
Colour cosmetics (Powder-based formula)	7.8	26.1	10.0	36.9	34.9	11.4	15.6	46.8	50.0	167.3	21.4	78.8	74.6	24.4
Toiletries (Liquid-type formula)	38.4	116.1	31.3	197.7	154.6	77.5	100.0	300.0	38.4	116.1	10.4	65.9	51.5	25.8
Toiletries (Emulsion-type formula)	8.2	26.2	9.6	29.0	40.6	19.8	48.0	144.0	17.1	54.6	6.7	20.1	28.2	13.8
Fragrances	7.1	14.3	15.5	27.1	24.0	18.3	22.5	67.5	31.6	63.6	23.0	40.1	35.6	27.1

For the four months ended 30 April 2016 and 2017:

Category	Actual monthly production volume			Utilisation rate <sup>(4)</sup>		
	A	B	C	A/C	B/C	
	Monthly average for the four months ended 30 April 2016	Monthly average for the four months ended 30 April 2017	Estimated monthly production capacity <sup>(2)</sup>	Monthly average for the four months ended 30 April 2016	Monthly average for the four months ended 30 April 2017	
Colour cosmetics (Wax-based formula)		1.6	0.6	9.6	16.7	6.3
Colour cosmetics (Powder-based formula)		4.7	9.4	15.6	30.1	60.3
Toiletries (Liquid-type formula)		14.9	11.1	100.0	14.9	11.1
Toiletries (Emulsion-type formula)		2.7	1.2	48.0	5.6	2.5
Fragrances		5.7	6.7	22.5	25.3	29.8

(1) The month of highest production volume can be different for each category of beauty product. This represents the production volume in the respective month of highest production for each category in the year ended 31 December 2015, which took place between May to July 2015.

(2) Estimated monthly production capacity refers to the estimated maximum monthly production capacity at the bottleneck of the production process for each of the relevant product category, which is calculated for illustrative purposes only based on the major assumptions that during the Track Record Period (i) there are 300 planned production days per year; (ii) our production lines are operated for eight hours per production day; and (iii) there was no major machinery or equipment breakdown. The bottlenecks for the production of

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colour cosmetics (wax-based and powder-based formulae) were the filling procedure, whilst the bottlenecks for the production of toiletries (liquid-type and emulsion-type formulae) and fragrances were the mixing procedure.

- (3) Estimated quarterly production capacity is calculated based on three times of the estimated monthly production capacity.
- (4) The utilisation rate is calculated by dividing respective actual monthly or quarterly production volumes of a period by the estimated maximum monthly or quarterly production capacity of the corresponding period.
- (5) This represents the production volume in the respective month of highest production for each category in the year ended 31 December 2016, which took place between June to July 2016.
- (6) The high utilisation rates during the Track Record Period are mainly due to the fact that we adjusted our working hours and engaged service providers on an as-needed basis, such that in effect we are operating on two shifts per day, to meet our production needs. For further details regarding the engagement of service providers, please refer to “— Employees”. Going forward, we will increase our production capabilities and capacities through factory expansion, and would be able to make adjustments to the work schedule of our production staff as well as engaging service providers in response to any potential increase in market demand of our products.

The fluctuations of our utilisation rates during the Track Record Period were mainly attributable to the changes in product mix and timing of our customers’ purchase orders of the relevant periods. As our beauty products sold during the Track Record Period are mainly seasonal gift sets and standalone items targeted for holiday and festive seasons, they are typically one-off products and orders are generally not recurring in nature. The type and number of products purchased by our customers vary from period to period depending on, among others, the marketing plan and budgets of our customers of the relevant period. Hence, our production volume of different product categories will change from period to period.

### **Machineries and equipment**

The Cosbe Facility is equipped with a variety of machineries and equipment for different stages of production. Substantially all of our major machineries and equipment are owned by our Group and were generally purchased in the PRC. The table below sets forth our primary machineries and equipment as at the Latest Practicable Date:

<u>Machine</u>	<u>Number of units</u>	<u>Weighted average of age (Year) (Approximate)</u>	<u>Weighted average of remaining useful life (Year) (Approximate)</u>
Compressor	24	6.3	1.0
Emulsion mixer	13	9.6	0.4
Filling machine	30	10.0	0.3
Liquid mixer	23	9.8	0.2
Powder mixer	10	8.5	2.1

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### Repair and maintenance

We implement strict repair and maintenance procedures for our major machineries and equipment to ensure high production efficiency as well as to provide a safe working environment to our employees. Staff from our production department will conduct routine checking on our machineries and equipment on a daily basis and will conduct detailed checking on an annual basis. We maintain detailed records of maintenance and repair of the machineries. For the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, our overall costs incurred for repair and maintenance were approximately HK\$0.4 million, HK\$1.0 million, HK\$0.2 million and HK\$0.1 million, respectively. Our Directors confirm that during the Track Record Period, we did not experience any significant interruption to our production due to any breakdown of our machineries and equipment.

### COMPETITION

As stated in “Industry Overview”, the competition in the beauty product manufacturing market in the PRC is highly fragmented and competitive. No player dominates the market in the beauty product manufacturing market. Different beauty product manufacturers compete on quality, price, design, production capability and ability to provide value-added services. Whilst our Group ranked fifth in the beauty products manufacturing market by revenue in the PRC in 2016, the total market share of the top five players in 2016 was approximately 4% in total.

As disclosed in “Industry Overview”, as the internet develops with information of makeup and skincare becoming more easily accessible to customers, this prompts customers to become more concerned about the quality of colour cosmetics and fragrance. With end-consumers becoming more concerned about the quality of beauty products, our Directors believe our customers will endeavour to remain competitive in the market and appeal to end-consumers by continuing to purchase from reliable beauty products manufacturers that can produce quality beauty products. As a beauty products manufacturer having obtained ISO 9001 and GMPC certifications, we are committed to producing quality beauty products.

Furthermore, as disclosed in “Industry Overview”, with the popularity of internet and retailers adapting new strategies by promoting and selling through online platforms, customers are able to access more quality products at a lower price which largely increases their enthusiasm for beauty products. Seven of our customers during the Track Record Period also sell their products online. With such sales channel, which can potentially increase end-consumers’ desire for purchase, coupled with our commitment to producing quality beauty products, our Directors believe that quality beauty products produced by our Group will be able to attract end-consumers which will prompt our customers to continue to place more orders with us.

Based on the above, our Directors believe that the popularity of the internet for procurement of more quality beauty products is relevant to and can drive our Group’s growth.

### INFORMATION TECHNOLOGY

We implemented the ERP system to complement our business and assist us in among others, managing our sales orders, purchases and inventories.

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As our business continues to grow, we recognise the importance of effective and efficient management across our production process. To this end, we are in the process of implementing the barcode system which enables us to enhance management across the production process as well as inventory control, the anti-error system which aims to eliminate human errors in the production process and computerised pipeline and production environment control system. For details, please refer to “Future Plans and Use of Proceeds — Business strategies and future plans”.

### PROPERTIES

As at the Latest Practicable Date, we do not own any real property. As at the Latest Practicable Date, we leased various properties in the PRC from Baoma, a connected person of our Company as our production facility, warehouse and office. The reason for setting up a PRC representative office is to provide administrative support, conduct liaison works and manage relationship with our PRC suppliers. We also leased our head office in Hong Kong and a residential premises in Hong Kong from connected persons of our Company. The residential premises is for use by two of our executive Directors. Please refer to “Connected Transactions — Non-exempt continuing connected transactions — 2. Lease of residential premise from Smart Path” for further details.

<u>Location</u>	<u>Owner</u>	<u>Term</u>	<u>Gross floor area (Approximate)</u>	<u>Usage</u>	<u>Annual rental</u>
Room B, 35/F and car park spaces No P24, P25 & P26, 2/F, EGL Tower, 83 Hung To Road, Kwun Tong, Kowloon, Hong Kong	Sky Choice	25 April 2016 to 31 December 2017	2,289 sq.ft.	Office	HK\$877,200
House 62, The Giverny, Man Kei Toi, Pak Sha Wan, Sai Kung, New Territories, Hong Kong	Smart Path	1 January 2015 to 31 December 2017	191 sq.m.	Residential	HK\$1,200,000
1st to 4th Floors of South Building, No.1 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC	Baoma	1 December 2016 to 30 November 2019	4,420 sq.m.	Production, warehouse, office	RMB291,720, RMB344,760 and RMB371,280 for each of the three years, respectively
No.5 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC	Baoma	1 March 2016 to 28 February 2019	1,518 sq.m.	Production, warehouse, office	RMB109,296, RMB127,512 and RMB145,728 for each of the three years, respectively

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<u>Location</u>	<u>Owner</u>	<u>Term</u>	<u>Gross floor area (Approximate)</u>	<u>Usage</u>	<u>Annual rental</u>
No.5 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC	Baoma	1 January 2017 to 31 December 2019	4,555 sq.m.	Production, warehouse, office	RMB382,620, RMB437,280 and RMB437,280 for each of the three years, respectively
2nd Floor of Block C, No.1 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC	Baoma	1 February 2017 to 31 January 2020	507 sq.m.	Office	RMB36,470, RMB39,509 and RMB42,549 for each of the three years, respectively
1st to 4th Floors of North Building and West Building, No.1 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC	Baoma	1 November 2017 to 31 October 2020	11,220 sq.m.	Production, warehouse, office	RMB807,840, RMB875,160 and RMB942,480 for each of the three years, respectively

Our PRC Legal Advisers have confirmed that based on the land and building ownership right certificates, Baoma is the legal owner of the respective abovementioned properties leased by our Group, and Baoma has the right to respectively let to Cosbe and Takbo the abovementioned properties. Our PRC Legal Advisers have confirmed that as Cosbe and Takbo have each attended to the necessary filings of the tenancy agreements, each of them are legally entitled to occupy the respective abovementioned properties leased from Baoma. Our PRC Legal Advisers have further confirmed that Baoma and our Group have obtained all the applicable licences and permits from the relevant regulatory authorities for our Group's current use of the abovementioned properties leased from Baoma.

The above leases constitute continuing connected transactions for our Company under the GEM Listing Rules and will be supplemented or superseded upon Listing. For further details, please refer to "Connected Transactions — Non-exempt continuing connected transactions".



## **INTELLECTUAL PROPERTY**

Other than products manufactured for our customers under their own brands, we also manufacture and sell beauty products under our own brands, namely “Pink Viva”, “Secret Lace” and “Gorgeous Girl Forever”. During the Track Record Period, we have licenced the use of the aforementioned trademarks from V.M. at nominal consideration. The consideration for licensing the various trademarks by V.M. to our Group was determined with reference to the costs V.M. incurred for registering the trademarks as well as the revenue contributions of the beauty products sold under those trademarks by our Group, both of which were insignificant. Four and one registered trademarks in the U.S. and Mexico, respectively, and three trademark applications in the U.S., which represented all the registered trademarks and trademark applications of V.M., have been transferred from V.M. to us during the Track Record Period and the corresponding registration of the transfers in the relevant jurisdictions have been completed as at the Latest Practicable Date. As at the Latest Practicable Date, our Group had seven, five, one and one registered trademarks in the U.S., the PRC, Hong Kong and Mexico, respectively, and one and two trademark applications in the U.S. and the PRC, respectively. We will take all appropriate action to register and protect trademarks of our own brands in the jurisdictions in which products under these brands are/will be sold to. As at the Latest Practicable Date, our Group did not have any pending or threatened claims against us, nor is there any claim made by our Group against third parties, with respect to the infringement of intellectual property rights owned by our Group or third parties.

Details of the trademarks registered and applied by us, and those registrations and applications as at the Latest Practicable Date are set out in “Statutory and General Information — Further information about the business of our Group — 8. Intellectual property rights of our Group” in Appendix IV to this prospectus.

## **PRODUCT LIABILITY AND INSURANCE**

During the Track Record Period and up to the Latest Practicable Date, we maintained product liability insurance with global coverage in respect of some of our products of up to US\$10 million in aggregate and US\$5 million for each incident. Some of our customers require us to furnish with them a product liability insurance certificate on an annual basis. As most of our products are sold to the U.S., there are certain laws and regulations on product liability that are applicable to us. For further details on the applicable laws on product liability in the U.S., please refer to “Regulatory Overview — Overview of U.S. laws and regulations”. During the Track Record Period, we did not receive any product liability claims from third parties which are material to our Group in relation to the use of our products. We also maintained public liability insurance in Hong Kong and fire insurance in respect of our Hong Kong office during the Track Record Period.

We make contributions to social insurance for our employees in the PRC comprising insurance for retirement, unemployment, sickness, maternity and injury, as required by PRC social insurance regulations. We also maintain employee compensation insurance in respect of our operations in Hong Kong. We do not maintain insurance on our manufacturing assets or inventory as we regularly maintain our machineries and many of our machineries and equipment have passed their expected useful life, and we keep a low level of inventory. Our Directors consider that our Group

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maintains sufficient insurance coverage which is in line with industry norm. Please refer to “Risk Factors — Risks relating to our business” for risks in relation to the inadequacy of insurance coverage. For the Track Record Period, the insurance premium paid by our Group was insignificant. During the Track Record Period and up to the Latest Practicable Date, we had not made any material claim on insurance.

### EMPLOYEES

As at the Latest Practicable Date, we had a total of 13 and 101 full-time employees in Hong Kong and the PRC, respectively. The following table sets out a breakdown of our employees categorised by region and function as at the Latest Practicable Date:

<u>Function</u>	<u>Hong Kong</u>	<u>PRC</u>	<u>Total</u>
Accounting and finance	2	3	5
Management and administration	5	6	11
Production and material control	—	62	62
Quality control	—	11	11
Design, research and development	1	11	12
Sales and marketing	5	4	9
Purchasing	—	4	4
<b>Total</b>	<b><u>13</u></b>	<b><u>101</u></b>	<b><u>114</u></b>

Our Group generally recruits personnel from the open market. During the Track Record Period, our Group has not paid any fees to any recruitment agencies for recruitment/employment services. As at the Latest Practicable Date, we have engaged one recruitment agent in Hong Kong to assist us in engaging quality personnel to join us as part of our expansion and the Listing. The fees payable to the recruitment agent will be calculated based on the remuneration package of the candidate. We will bear all relevant costs in relation to the benefits of the recruited candidate and the recruitment agent is not required to bear any such costs.

For the staff in the PRC, our Group provides technical, operational as well as workplace safety trainings to the new employees and on-going trainings for all employees. The compensation package of our employees includes salary and required benefits under PRC laws. During the Track Record Period, we did not experience any difficulty in recruiting suitable staff for our operations nor did we experience any material labour dispute with our employees.

During peak seasons in the Track Record Period, we contracted 27 service providers in the PRC who are Independent Third Parties to assist on packaging works in the Cosbe Facility using our packaging materials, and in accordance with our required standards and specifications. We had an average of approximately two years of business relationship with these service providers, and they were selected based on the past quality of their work done. We will inspect the products packaged by these service providers to ensure they accord with our prescribed standards. We enter into framework processing agreements with these service providers every year, and such agreements

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do not contain any renewal or termination clauses. Each time when processing service is needed, we enter into separate processing agreement with the service provider, which contains the quantity of products to be processed and the pricing term. The service providers were paid service fees in a mutually agreed lump sum, taking into account the quantity of work done.

During the Track Record Period, we also contracted 12 service providers in the PRC who are Independent Third Parties to provide liaison services for functions such as procurement and design. As at the Latest Practicable Date, we had contracted four such service providers. We had an average of approximately two years of business relationship with these service providers, and they were selected based on the past quality of their work done. We enter into services agreements with these service providers every year, and such agreements do not contain any renewal or termination clauses. The service providers were generally paid service fees on a quarterly or monthly basis based on the number of projects they undertook. As advised by our PRC Legal Advisers, our aforementioned arrangements with the service providers complied with relevant rules and regulations of the PRC. On 20 February 2017, we have set up a representative office in the PRC to provide liaison services on functions such as procurement and design.

In March 2017, Takbo entered into a manpower service agreement (“**Manpower Service Agreement**”) with a service provider (“**Manpower Service Provider**”), an Independent Third Party, for a period of 12 months, pursuant to which the Manpower Service Provider will in accordance with Takbo’s request, arrange personnel (“**Personnel**”) to provide certain services to Takbo. The Manpower Service Agreement did not explicitly provide for the service scope but in practice, it is intended that the Personnel will provide liaison services on functions such as procurement and design. The Personnel are provided for the representative office. The remuneration and social insurance contributions of the Personnel are borne by the Manpower Service Provider. Takbo pays a monthly service fee, based on the number of Personnel, to the Manpower Service Provider for the services rendered. The Manpower Service Agreement can be terminated by either party serving two months’ written notice on the other party. As confirmed by our Directors, the reason for entering into the Manpower Service Agreement is for better management of human resources as such provider can assist Takbo to fill replacement or expand headcount more efficiently. As advised by our PRC Legal Advisers, the above manpower arrangement complied with the relevant laws and regulations of the PRC and the Manpower Service Agreement is legal and valid.

In accordance with the relevant national and local labour and social welfare laws and regulations in the PRC, our Group is required to contribute to social insurance and housing provident funds for our employees in the PRC. As confirmed by our Directors, as at the Latest Practicable Date, our Group has complied with the applicable laws and regulations in the PRC regarding social insurance and housing provident funds for our PRC employees.

In Hong Kong, our Group participates in the mandatory provident fund scheme established under the Mandatory Provident Fund Schemes Ordinance. As confirmed by our Directors, as at the Latest Practicable Date, our Group is in compliance with applicable Hong Kong laws and

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regulations in relation to the mandatory provident fund scheme and has not received any notice from any government department in Hong Kong that it has failed to make contribution to the mandatory provident fund.

For each of two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, our total employee benefits were approximately HK\$12.9 million, HK\$17.5 million, HK\$3.9 million and HK\$4.7 million, which accounted for approximately 7.6%, 10.6%, 15.5% and 19.7% of our total revenue, respectively.

None of our employees in Hong Kong belong to labour unions. Most of our employees working at Cosbe are members of a labour union.

### ENVIRONMENTAL PROTECTION

We are subject to various PRC national and local environmental laws and regulations related to our operations. For further details on such laws and regulations, please refer to “Regulatory Overview — Overview of the PRC laws and regulations”.

We believe that it is important and essential to protect the environment. For this reason, we have in place environmental protection policies for discharge of all of our wastes generated during our production process.

We have obtained the pollutant emission permit for waste water and gas and ensured all waste water and gas generated during our production process is safely handled according to national safety standards before external discharge. The operation of our machines also generated noise which is within acceptable regulatory standards.

During the Track Record Period, we have commissioned a third party waste disposal company to handle/dispose of certain toxic liquid and solid waste (such as emulsion and mineral oils), which, under PRC laws and regulations, are required to be handled by a waste disposal specialist.

As advised by our PRC Legal Advisers, we complied with the relevant rules and regulations in relation to environmental protection management and attended to the necessary administrative documentation in respect of environmental protection.

For the Track Record Period, our expenditure in compliance with the relevant environmental laws and regulations is insignificant. As part of our factory expansion plan, we expect to incur certain costs in relation to environmental protection, further details are set out in “Future Plans and Use of Proceeds — Business strategies and future plans”. We consider the costs to be incurred in relation to environmental protection are immaterial to our Group. We were not in breach of any specific environmental regulations applicable to our business and were not involved in any material incident involving waste handling or noise during the Track Record Period.

### WORK SAFETY

We take work safety seriously in the Cosbe Facility and have established measures to promote work safety and to ensure compliance with applicable laws and regulations.

We provide our employees with work safety trainings, including the safe operation of production machineries and equipment and procedures associated with the dangerous chemicals, to promote the importance of and to raise the awareness of work safety among our employees and ensure all our employees are familiar with the applicable laws and policies and the necessary procedures to be followed in order to prevent work safety hazard.

We have established a series of safety guidelines, rules and procedures for different aspects of our production activities, including chemicals handling and storage, fire safety, electricity safety, work-related injuries and emergency and evacuation procedures. We have installed appropriate fire safety equipment.

Our Directors confirm that we did not encounter material work safety accidents during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, we had not experienced any material or prolonged stoppages of production due to equipment failure, nor had we experienced any major accidents during the production process.

### RISK MANAGEMENT AND INTERNAL CONTROL

We recognise the need for risk management and internal control in our strategic and operational planning, day-to-day management and decision making process and are committed to managing and minimising risks that may impact the continued efficiency and effectiveness of our operations or prevent it from achieving its business objectives. For details on risks faced by our Group, please refer to “Risk Factors — Risk relating to our business”. All such risks may arise from time to time in connection with the operations of our Group.

Our Board and senior management are responsible for identifying and analysing the risks associated with their respective function, preparing risk mitigation plans, measuring effectiveness of such risk mitigation plans and reporting status of risk management. For details on the qualifications and experiences of the members of our audit committee and our Board, please refer to “Directors, Senior Management and Employees — Board committees”.

We have established the following structures and measures to manage our risks:

- (1) our Board will conduct a thorough examination of any material risks associated with any material business decision before making or approving such decision. Our Board shall be responsible for evaluating and determining the nature and extent of the risks that our Group is willing to take to achieve our strategic objectives, and for formulating policies to control or manage any significant risk to an acceptance level;

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- (2) our senior management monitors daily operations and identify any associated operational risks of our Group. They are also responsible for identifying and assessing potential market risks related to fluctuations in industrial environment and movements in market variables and report irregularities in connection with operational and market risks to our executive Directors for formulating policies to mitigate these risks;
- (3) our audit committee reviews the internal control system and procedures for compliance with the requirements of applicable laws, rules and regulations;
- (4) our Directors have attended trainings conducted by our Hong Kong legal advisers on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the SFO and the GEM Listing Rules, and our Directors are fully aware of their duties and responsibilities as directors of a listed company in Hong Kong;
- (5) we have appointed Lego Corporate Finance Limited as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules to ensure that, among other things, we are properly guided and advised as to compliance with the GEM Listing Rules upon Listing; and
- (6) we provide training to our employees in order to enhance their industry knowledge to manage our operational risks.

In connection with the Listing, we engaged an independent internal control consultant (the “**Internal Control Consultant**”) on 9 December 2016 to review selected areas of our internal controls over financial reporting (the “**Internal Control Review**”) in accordance with the Technical Bulletin — AATB 1 (Revised) Assistance Options to New Applicants and Sponsors in connection with Due Diligence Obligations, including Internal Controls over Financial Reporting, issued by the HKICPA. The scope of the Internal Control Review in December 2016 performed by the Internal Control Consultant was agreed among us, the Sole Sponsor and the Internal Control Consultant. The selected areas of our internal controls over financial reporting that were reviewed by the Internal Control Consultant included entity-level controls and business process level controls, including revenue and receivables, purchase and payables and subcontracting, inventory management, production management, cash and treasury management, financial reporting and disclosure controls, human resources and payroll, property, plant and equipment, taxation, intellectual properties and information technology general controls (for the key accounting

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systems). The material findings identified by the Internal Control Consultant in the Internal Control Review and the corresponding remedial actions taken by our Group are set out in the table below:

<u>Material Findings</u>	<u>Remedial Actions</u>
<ul style="list-style-type: none"><li>● The need to establish an internal audit function</li></ul>	<ul style="list-style-type: none"><li>● Our Group will set up its internal audit function shortly after Listing.</li><li>● Internal Audit Charter has been established to outline the roles, responsibilities, and reporting lines of the internal audit function.</li></ul>
<ul style="list-style-type: none"><li>● The need to enhance the controls over the sales recognition process</li></ul>	<ul style="list-style-type: none"><li>● Sales policy has been formally established which covers the principle of revenue recognition.</li><li>● Review on sales recognition has been conducted.</li></ul>
<ul style="list-style-type: none"><li>● The need to enhance controls over sales contract management</li></ul>	<ul style="list-style-type: none"><li>● Sales policy pertaining to sales contract management has been established.</li><li>● Sales contracts are solely maintained by the sales manager.</li><li>● Sales contract register has been established.</li></ul>
<ul style="list-style-type: none"><li>● The need to strengthen controls over the authorisation of bank remittance and payment</li></ul>	<ul style="list-style-type: none"><li>● Policy relating to the cash and treasury management has been established.</li><li>● Dual signatory control has been enforced for cheque and bank remittance.</li><li>● Formal authorisation matrix has been set up to define the approval limits of cheque payments and bank transfer.</li></ul>
<ul style="list-style-type: none"><li>● The need for settlement of current accounts with the beneficial owners</li></ul>	<ul style="list-style-type: none"><li>● Policy relating to the cash and treasury management has been established to prohibit loan to Directors.</li><li>● The non-trading balances with the Directors have been settled.</li></ul>

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### Material Findings

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- The need to enhance segregation of duties over preparation and review of journal entries
- The need to enhance controls over management's personal expenses

### Remedial Actions

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- Financial reporting and disclosure controls policy has been established to provide guidance on segregation of duties over preparation and review of journal entries. Manual journal entries are independently reviewed by the finance manager.
- Financial reporting and disclosure controls policy has been formally documented to prohibit personal expense and enforce the segregation of duties over the expense claim approval process.

Our Group has taken measures to rectify the deficiencies based on the findings of the Internal Control Review. Save for setting up or outsourcing our internal audit function which will be done shortly after Listing, we have fully implemented all other remedial actions listed in the above table.

The Internal Control Consultant conducted a follow-up review (the “**Follow-up Review**”) from January to March 2017, to review the status of our remedial actions to address the findings of the Internal Control Review. The Internal Control Consultant did not have any further recommendation in the Follow-up Review and noted that, save for setting up or outsourcing our internal audit function, we have fully implemented the recommendations listed in the table above. The Internal Control Review and the Follow-up Review were conducted based on information provided by us, and no assurance or opinion on internal controls was expressed by the Internal Control Consultant.

In addition, we will appoint (i) an internal control consultant to provide advice and review our internal control system regarding internal control matters on a regular basis after Listing until we can set up our own internal audit function; and (ii) external legal advisers after Listing to advise us on compliance with and to provide us with updates on the changes in the GEM Listing Rules and the applicable Hong Kong and PRC laws, rules and regulations from time to time and as required. With the assistance of our external Hong Kong and PRC legal advisers, the compliance adviser, internal control consultant and company secretary, we aim to maintain effective internal control system and corporate governance measures upon Listing, as well as ensure that our Group's operations are in compliance with the applicable laws, rules and regulations with respect to our business operations in Hong Kong and the PRC.

Having considered the above, our Directors are of the view, and the Sole Sponsor concurs, that our procedures, systems and controls are adequate and effective for our current operation in providing a reasonable basis to enable our Directors to make a proper assessment of the financial position and prospect of our Group and to ensure compliance with the applicable legal and regulatory requirements.



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### LICENCES AND PERMITS

The material licences and permits currently held by our Group are detailed below:

<u>Entity</u>	<u>Licence/Permit</u>	<u>Regulatory body</u>	<u>Date of grant</u>	<u>Expiry date</u>
Cosbe	中華人民共和國化妝品 生產許可證 (PRC Cosmetics Production Permit*)	廣東省食品藥品監督管 理局 (Guangdong Province Food and Drug Administrative Bureau*)	7 December 2016	6 December 2021
Cosbe	廣東省污染物排放 許可證 (Guangdong Province Pollutant Emission Permit*)	汕頭市環境保護局 (Shantou City Environmental Protection Bureau*)	19 March 2015	18 March 2018

As at the Latest Practicable Date, as advised by our PRC Legal Advisers, we have obtained all material licences and permits for our operations.

### LITIGATION

During the Track Record Period and up to the Latest Practicable Date, our Group was not involved in any actual, pending or threatened claims, litigation, administrative action or arbitration which could have a material adverse effect on our business, financial position or results of operations.

### REGULATORY COMPLIANCE

We are headquartered in Hong Kong and all of our operations are in Hong Kong and the PRC. All of our employees are located in Hong Kong and the PRC.

Our Directors confirm that Hong Kong and the PRC are the jurisdictions in relation to our operations. During the Track Record Period and up to the Latest Practicable Date, we did not experience any incident of non-compliance which, in the opinion of our Directors, is likely to materially and adversely affect our business, financial condition or results of operations. During the Track Record Period and up to the Latest Practicable Date, we have complied with all applicable laws and regulations in Hong Kong and the PRC in all material respects.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), our Controlling Shareholders, Mr. Or Naam, Ms. Chu and Ms. Chan will own 50.8%, 39.7% and 9.5% interest in Classic Charm, respectively, and through Classic Charm in aggregate control 75% of our Shares in issue. Mr. Or Naam, Ms. Chu and Ms. Chan have undertaken to act in concert to exercise the voting rights in our Company through their interests in Classic Charm. Hence, each of Classic Charm, Mr. Or Naam, Ms. Chu and Ms. Chan is our Controlling Shareholder upon Listing, within the meaning of the GEM Listing Rules.

On 1 March 2017, Mr. Or Naam, Ms. Chu and Ms. Chan have confirmed by way of a deed of confirmation (“**Deed of Confirmation**”) that since they became interested in and possessed voting rights in Takbo and/or B&B and during the Track Record Period and up to the date of the said deed (so far as B&B is concerned) or up to 23 February 2017 (so far as Takbo is concerned):

- they had been acting in concert with each other in exercising and implementing the management and operation of Takbo, B&B and their respective subsidiary (if any) as a single business venture;
- they have, whether by themselves or via any viable corporate vehicles, been cooperating and acting in concert with each other in respect of all material management matters, voting decision and/or business decision required to be approved by shareholders and/or the directors under the articles of association of Takbo and/or B&B (including but not limited to financial and operation policy, declaration of dividends, annual budget of Takbo and/or B&B, execution of material contracts and investment and appointment of directors and senior management);
- they had first communicated, discussed and come to an unanimous decision in all shareholders’ meetings and/or board meetings and had reached the unanimous decision and resolution in accordance with the consensus achieved amongst them;
- they had cooperated with each other to obtain and maintain the control and the management of Takbo, B&B and their respective subsidiary (if any); and
- they had been enjoying the economic benefits generated from the business and projects of Takbo, B&B and their respective subsidiary (if any) in proportion to their respective shareholdings in Takbo and B&B.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Further, each of Mr. Or Naam, Ms. Chu and Ms. Chan agreed, confirmed and undertook that from the date of the Deed of Confirmation until the termination of the Deed of Confirmation, among other things:

- when exercising their respective voting rights at the shareholders' meeting and/or board meetings (so far as Mr. Or Naam and Ms. Chan are concerned) of our Company and our subsidiaries (to the extent applicable), they shall vote, or procure any entities which were entitled to vote at the shareholders' meetings and/or board meetings (so far as Mr. Or Naam and Ms. Chan are concerned) to vote, as the case may be, unanimously in accordance with the consensus achieved among themselves;
- prior to voting on any resolutions in shareholders' meeting and/or board meetings (so far as Mr. Or Naam and Ms. Chan are concerned) of our Company and our subsidiaries (to the extent applicable), each of them will discuss the relevant matters with the others with a view to reaching consensus and an unanimous vote;
- to manage (so far as Mr. Or Naam and Ms. Chan are concerned) and control our Group on a collective basis and make collective decisions in respect of the financial and operating policies of our Group;
- to centralise the ultimate control and right to make final decisions with respect to their interests in the businesses and projects of each company within our Group;
- to operate our Group as a single business venture;
- they will continue to enjoy the economic benefits generated, including but not limited to dividends declared, from the business and projects of our Group; and
- he or she will not do any act or exercise any of his/her voting power (which may be available to him/her from time to time) in contravention of his/her obligations under the Deed of Confirmation or in violation of any consensus reached in accordance with the Deed of Confirmation.

### INTEREST OF CONTROLLING SHAREHOLDER IN OTHER BUSINESS

None of our Controlling Shareholders or our Directors or any of their respective close associates has any interests in a business, other than our Group's business, which competes or is likely to compete, either directly or indirectly, with our Group's business. In addition, each of the Controlling Shareholders has given a non-competition undertaking in favour of our Company. For details, please refer to "— Non-competition undertaking".

We principally design, develop, manufacture and sell beauty products, comprising colour cosmetics, toiletries and fragrances, as well as design, develop and sell beauty bags. We intend to continue to focus on these beauty related lines of business after the Listing.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Baoma and Haohong are wholly-owned subsidiaries of Tak Bo Hong, which in turn is a partnership registered in Hong Kong jointly and severally owned by Ms. Chu, one of our Controlling Shareholders, and Mr. TM Or, the spouse of Ms. Chu. Yecao is a wholly-owned subsidiary of Baoma. Set out below are the principal business activities of the members of the Tak Bo Hong Group during the Track Record Period:

Entity	Principal business activities
Tak Bo Hong	Investment holding
Haohong	Manufacture and sale of, among others, bags in the PRC
Baoma	Manufacture and sale of bags in the PRC
Yecao	Manufacture and sale of, among others, garment in the PRC

Haohong and Yecao have ceased operations as at the Latest Practicable Date.

On the Latest Practicable Date, the PRC Legal Advisers have inquired information on: (a) “National Enterprise Credit Information Publicity System”, (b) www.creditchina.gov.cn (being a credit information publicity website hosted by NDRC, the People’s Bank of China and State Information Center), (c) “China Judgements Online”, and (d) “China Executive Information Online”. Based on the foregoing information, our Directors confirm that they are not aware of any material non-compliance with the laws and regulations of the PRC on the part of Baoma during the Track Record Period.

For the Track Record Period, our purchases from Baoma amounted to approximately HK\$13.1 million, HK\$13.3 million, and HK\$4.5 million, respectively, representing approximately 13.7%, 14.4% and 30.7% of our total purchase costs and approximately 30.9%, 42.3% and 62.5% of our total purchase of beauty bags for the respective periods. Baoma is also our single largest supplier during the Track Record Period. For the Track Record Period, approximately 27.4%, 32.0% and 38.8% of Baoma’s revenue was derived from our Group, respectively. Save as disclosed in “—Operational independence” and “Connected Transactions — Non-exempt continuing connected transactions”, as at the Latest Practicable Date, we did not have any business dealings with the Tak Bo Hong Group. For the reasons below, our Directors are of the view that there is a clear delineation between the business operated by our Group and that operated by each member of the Tak Bo Hong Group. Each of our Directors and our Controlling Shareholders further confirm that there is no competition between our Group and the Tak Bo Hong Group in respect of the businesses respectively operated by them, and that there is no intention to merge our Group and the Tak Bo Hong Group at any time.

	Our Group	Tak Bo Hong	Baoma	Haohong	Yecao
<b>Business model</b>	<ul style="list-style-type: none"> <li>• (i) Design, development, manufacture (on ODM and OEM bases) and sale of beauty products, comprising colour cosmetics, toiletries and fragrances, as well as (ii) design, development and sale of beauty bags</li> </ul>	<ul style="list-style-type: none"> <li>• Investment holding</li> </ul>	<ul style="list-style-type: none"> <li>• Manufacture all sorts of bags on an OEM basis for sale in the PRC, with no input on product design and development</li> </ul>	<ul style="list-style-type: none"> <li>• Ceased operations as at the Latest Practicable Date</li> </ul>	<ul style="list-style-type: none"> <li>• Ceased operations as at the Latest Practicable Date</li> </ul>
<b>Principal target clientele</b>	<ul style="list-style-type: none"> <li>• Retailers and beauty product brand owners</li> </ul>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• Trading companies</li> </ul>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>
<b>Principal location of clientele of bags</b>	<ul style="list-style-type: none"> <li>• Overseas corporations and their PRC subsidiaries (if any)</li> </ul>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• PRC corporations</li> </ul>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### REASONS FOR NON-INCLUSION OF BAOMA INTO OUR GROUP

The reasons for not including Baoma into our Group are as follows:

- (i) the business model and principal location of clientele of bags of the two groups are different. Although both our Group and Baoma sell beauty bags, our Group is more focused on product design and development while Baoma manufactures and sells bags of all sorts (including beauty bags) on an OEM basis with no input on product design and development. Also, our Group's principal clients are overseas corporations and their PRC subsidiaries whereas Baoma's principal clients are domestic PRC corporations. To the best of our Directors' knowledge, Baoma has no present plan or intention to expand its business beyond its current scope. Based on the aforementioned, our Directors are of the view that there is no direct competition between our Group and Baoma;
- (ii) Ms. Chu was not a director and had no representation on the board of directors of Baoma during the Track Record Period and up to the Latest Practicable Date, and had not been involved in the operation and day-to-day management of Baoma. During the Track Record Period and up to the Latest Practicable Date, the management of Baoma reported to the chairman of the board of directors of Baoma, Mr. TM Or, and major decisions were made by him. Therefore, Ms. Chu is a passive investor of Baoma and cannot afford our Group or herself any rights and powers to exert control or influence over the operation and management of Baoma. Our Directors are of the view that it does not appear to be in our Group's interests to have Baoma injected into our Group;
- (iii) since our Group's strategic plan focuses on the manufacture and sale of beauty products, our Directors are of the view that our Group's resources should be concentrated on effective implementation of its focused strategy, and not the manufacture and sale of bags; and
- (iv) while Ms. Chu is a mere passive investor of Baoma and is not a director of Baoma with no involvement in the operation and day-to-day management of Baoma, Ms. Chu still has the right to participate in any decision to change the ownership structure of the Tak Bo Hong Group in her capacity as one of the partners of Tak Bo Hong. Both Ms. Chu and Mr. TM Or, the two partners of Tak Bo Hong, have no intention to merge our Group and the Tak Bo Hong Group at any time.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### INDEPENDENCE BETWEEN OUR GROUP AND THE TAK BO HONG GROUP

	<u>Our Group</u>	<u>Tak Bo Hong Group</u>
<b>Management independence</b>	<ul style="list-style-type: none"><li>● As at the Latest Practicable Date, there was no overlapping of management between the Tak Bo Hong Group and our Group. As at the Latest Practicable Date, none of the directors or members of senior management of the Tak Bo Hong Group held any directorship or position or assumed any role and responsibilities in our Group or were involved in the management or operations of our Group. Our Group makes business decisions independently of the Tak Bo Hong Group.</li><li>● As at the Latest Practicable Date, neither of Ms. Chu or Mr. TM Or were involved in the management of our Group.</li><li>● Mr. Or Huen, our executive Director, was a director of Baoma and Haohong. He resigned as a director of Baoma and Haohong on 21 February 2017. Mr. Or Huen confirmed to us that he did not assume any executive management role or participate in the day-to-day operation of Baoma and Haohong prior to his resignation.</li><li>● Ms. Chu was a director of Takbo. She resigned as a director of Takbo on 23 February 2017. Since her resignation, she no longer assumes any executive management role or participates in the day-to-day operation of our Group as at the Latest Practicable Date.</li><li>● Ms. Chu was also a director of Haohong. She resigned as a director of Haohong on 21 February 2017. Ms. Chu confirmed that she did not assume any executive management role or participate in the day-to-day operation of Haohong.</li></ul>	<ul style="list-style-type: none"><li>● As at the Latest Practicable Date, none of our Directors or members of senior management held any directorship or position or assumed any role and responsibilities in any member of the Tak Bo Hong Group or were involved in the management or operations of any member of the Tak Bo Hong Group. As at the Latest Practicable Date, none of our Directors or Controlling Shareholders is involved in the operations or management of any member of the Tak Bo Hong Group. The Tak Bo Hong Group makes business decisions independently of our Group.</li></ul>

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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	<u>Our Group</u>	<u>Tak Bo Hong Group</u>
<b>Operational independence</b>	<ul style="list-style-type: none"><li>● Our Directors confirmed that our Group has a completely segregated internal control, accounting and finance, purchasing, sales and marketing, administration, quality control, production, design, research and development and information technology functions that are entirely independent of those of the Tak Bo Hong Group. In addition, our Group does not use any of the trademarks or other intellectual property rights owned by the Tak Bo Hong Group.</li><li>● As at the Latest Practicable Date, there was a complete separation of staff and the respective staff members of the Tak Bo Hong Group and our Group were not on the payroll of the other. We have an independent team of staff to handle our day-to-day operations independently of the Tak Bo Hong Group.</li></ul> <p>Please refer to “Connected Transactions — Non-exempt continuing connected transactions” for details on the connected transactions between Baoma and our Group upon Listing.</p>	<ul style="list-style-type: none"><li>● The Tak Bo Hong Group confirmed that it has a completely segregated internal control, accounting and finance, purchasing, sales and marketing, administration, quality control, production, and information technology functions that are entirely independent of those of our Group. In addition, the Tak Bo Hong Group does not use any of the trademarks or other intellectual property rights owned by our Group.</li><li>● As at the Latest Practicable Date, there was a complete separation of staff and the respective staff members of the Tak Bo Hong Group and our Group were not on the payroll of the other. The Tak Bo Hong Group confirmed that it has an independent team of staff to handle its day-to-day operations independently of our Group.</li></ul>
<b>Financial independence</b>	<ul style="list-style-type: none"><li>● Our Directors confirmed that our Group has a financial system entirely independent of the Tak Bo Hong Group. As at the Latest Practicable Date, there was no arrangement involving provision of guarantee, security and/or other form of financial assistance provided to/from our Group by/to the Tak Bo Hong Group.</li><li>● Our Directors confirmed that there was no sharing of banking facilities between our Group and the Tak Bo Hong Group.</li></ul>	<ul style="list-style-type: none"><li>● The Tak Bo Hong Group confirmed that it has a financial system entirely independent of our Group. As at the Latest Practicable Date, there is no arrangement involving provision of guarantee, security and/or other form of financial assistance provided to/from the Tak Bo Hong Group by/to any members of our Group.</li><li>● The Tak Bo Hong Group confirmed that there was no sharing of banking facilities between our Group and the Tak Bo Hong Group.</li></ul>

Pursuant to the Deed of Non-competition, Ms. Chu has agreed to irrevocably and unconditionally covenant and undertake, in the event that she intends to (directly or indirectly) dispose of any part or all of her interest in Baoma (the “**Subject Interests**”) she shall first offer to our Company the right to acquire such part or all of the Subject Interests (the “**Right of First Refusal**”). Ms. Chu may only proceed with such disposal, on terms not more favourable than those offered to our Company following the rejection of such offer by our Company. Ms. Chu has further

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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agreed to covenant and undertake with our Company that she shall dispose of her entire interest in Tak Bo Hong in the event that Tak Bo Hong and/or its subsidiaries (including Baoma) conducts or carries on business(es) which, in the opinion of our independent non-executive Directors, is likely to compete with our Group's business.

In addition, the following corporate measures will be adopted by our Company going forward with effect from the Listing Date to address the potential competition between the Tak Bo Hong Group and our Group and to protect the interest of our Shareholders:

- (a) decision for exercise or non-exercise of the Right of First Refusal shall be determined by our independent non-executive Directors only;
- (b) in assessing whether or not to exercise the Right of First Refusal, our independent non-executive Directors will take into account such factors as the business prospects and profitability of each of our Group and Baoma, and form their views based on the best interests of our Shareholders;
- (c) our independent non-executive Directors are empowered to engage professional advisers at our Group's cost for advice on matters relating to the Right of First Refusal;
- (d) our Company will publish an announcement to disclose the decision, with basis, of our independent executive Directors on whether to pursue or decline the exercise of the Right of First Refusal;
- (e) our independent non-executive Directors will be responsible for deciding and given authority to decide, without attendance by any Directors with beneficial or conflict interest, in any matters that have actual or potential conflict of interest with the Tak Bo Hong Group;
- (f) our Directors will ensure that any material conflict or potential conflict involving the Tak Bo Hong Group will be reported to our independent non-executive Directors as soon as practicable when such conflict or potential conflict is discovered and a board meeting will be held to review and evaluate the implications and risk exposure of such event and will monitor any material irregular business activities;
- (g) each of our Directors have undergone a director's training, which has set out and explained to them the fiduciary duty they owe to our Group as a director; and
- (h) our independent non-executive Directors will also conduct an annual review on the effectiveness of such internal control measures implemented to avoid any actual or potential conflict of interest with the Tak Bo Hong Group and will be entitled to seek independent professional advice from external parties at our Company's cost when they consider necessary. The basis and result of annual review will be disclosed in the annual report of the Company.



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

#### Management independence

Although our Controlling Shareholders will maintain controlling interests in our Company upon completion of the Share Offer, the day-to-day management and operation of the business of our Group will be the responsibility of all our executive Directors and senior management of our Company. Our Board has six Directors comprising three executive Directors and three independent non-executive Directors, hence there will be a sufficiently robust and independent voice within our Board to protect the interests of our independent Shareholders.

Each of our Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit of and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) will abstain from voting at the relevant board meetings of our Company in respect of such transactions and will not be counted in the quorum. In addition, our Company has an independent senior management team to carry out the business decisions of our Group independently.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that our Company is capable of managing our Group's business independently from the Controlling Shareholders.

#### Operational independence

Our Group has established our own organisational structure made up of individual departments, each with specific areas of responsibilities. We did not share any operational resources, such as office premises, sales and marketing and general administration resources, and facilities and equipment with our Controlling Shareholders and their close associates during the Track Record Period. We have also established a set of internal controls to facilitate the effective operation of our business. We also have our own capabilities and personnel to perform all essential administrative functions, including financial and accounting management, invoicing and billing, human resources and information technology.

During the Track Record Period, we have rented certain properties in the PRC as our production facilities, warehouse and offices from Baoma, a connected person of our Company. As part of our business strategy and future plans to increase our production capabilities and capacities, we have rented from Baoma the New Cosbe Facility Premise I, which is within close proximity to the Cosbe Facility with a total gross floor area of approximately 4,420 sq.m. since December 2016. We have further rented from Baoma the New Cosbe Facility Premise II, with a gross floor area of 11,220 sq.m., which lease term is effective from 1 November 2017. Both premises will be set up as the New Cosbe Facility. For further details on our business strategy and future plans, please refer to "Future Plans and Use of Proceeds — Business strategies and future plans — (I) Increase our

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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production capabilities and capacities — (vii) Implementation of our Strategy by setting up the New Cosbe Facility — (i) Rental of new production facility”. Such leases would constitute continuing connected transactions for our Company after the Listing. For further details of such continuing connected transactions, please refer to “Connected Transactions — Non-exempt continuing connected transactions”. Our Directors are of the view that our Group does not rely on Baoma because the relevant rental agreements were entered into on normal commercial terms at prevailing market rates after arm’s length negotiations between our Group and Baoma.

In order to minimise the effect of our reliance (if any) on Baoma with respect to the rental of our existing production facility and that in the process of setting up the Cosbe Facility and the New Cosbe Facility, on 29 September 2017, we have entered into two supplemental agreements with Baoma in relation to the following premises and, effective from the Listing Date, extending the lease term by a further period of 10 years from the Listing Date, or 10 years from 1 November 2017, as the case may be:

<u>Location</u>	<u>Expiry date</u>	<u>Gross floor area (sq.m.) (Approximate)</u>	<u>Production facility</u>
No.5 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC	10 years from the Listing Date	1,518	Cosbe Facility
No.5 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC	10 years from the Listing Date	4,555	Cosbe Facility
1st to 4th Floors of South Building, No.1 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC	10 years from the Listing Date	4,420	New Cosbe Facility
1st to 4th Floors of North Building and West Building, No.1 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC	10 years from 1 November 2017	11,220	New Cosbe Facility

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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The following terms are also incorporated:

- Cosbe may request Baoma to renew the relevant lease agreements by giving 90 days' notice prior to the expiry of the relevant lease agreements, and Baoma shall not unreasonably refuse to renew the relevant lease agreements.
- If Baoma decides not to renew the relevant lease agreements, it must give Cosbe at least one year advance notice prior to expiry of the relevant lease agreements.
- If Baoma does not let the premises to us, Cosbe will have to relocate, in this regard, Baoma has undertaken to Cosbe that:
  - Baoma has an obligation to assist Cosbe in locating an alternative site and provide all reasonable assistance required for Cosbe's relocation; and
  - Baoma shall (i) pay all and necessary relocation expenses; and (ii) compensate Cosbe for economic losses (including Cosbe's loss of revenue), as a result of Cosbe's relocation.
- Baoma shall allow Cosbe to occupy and use the premises for a period mutually agreed, until relocation is completed and the operation at the new premises has commenced.
- If Baoma decides to dispose of the premises, it shall give Cosbe advance notice of one year. Cosbe shall have a first right of refusal to purchase the premises under the same conditions at the prevailing fair market price (or such amount to be determined by a jointly appointed independent third party valuer).
- Either party may terminate the lease by giving one year advance notice to the other party, or otherwise compensate the other party the rental of the corresponding year for the period short of the notice period.

For the foregoing reasons, we believe we do not place undue reliance on Baoma, as we have appropriate arrangements in place to ensure the continuation of our business operations in the least disruptive manner in the event that any relocation of the Cosbe Facility or the New Cosbe Facility becomes necessary.

During the Track Record Period, we have also rented office and residential premises in Hong Kong and premises for our representative office in the PRC from Sky Choice, Smart Path and Baoma, respectively, all of which are connected persons of our Company, and such leases would constitute continuing connected transactions for our Company after the Listing. For further details of such continuing connected transactions, please refer to "Connected Transactions — Non-exempt continuing connected transactions". Our Directors are of the view that our Group does not rely on Sky Choice, Smart Path or Baoma in respect of the aforesaid leases because (i) the relevant rental agreements were entered into on normal commercial terms at prevailing market rates after arm's length negotiations between our Group and the respective connected persons; (ii) alternative premises are available; and (iii) the relevant leased properties are not material to our Group's

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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operation. In the event that Sky Choice, Smart Path or Baoma ceases to lease the relevant property(ies) to us, we would be able to find suitable alternative premise from Independent Third Parties in the same region without material undue delay or inconvenience.

During the Track Record Period, we have purchased beauty bags from Baoma, and such purchases would constitute continuing connected transactions for our Company after the Listing. For further details of such continuing connected transaction, please refer to “Connected Transactions — Non-exempt continuing connected transactions”. Our Directors are of the view that our Group does not rely on Baoma because (i) the relevant purchases from Baoma are conducted on normal commercial terms after arm’s length negotiations between our Group and Baoma having regard to the quality, quantity and delivery timeline of the products supplied; and (ii) similar supplies are available from other suppliers. In the event that Baoma ceases to supply beauty bags to us, we would be able to find suitable alternative independent suppliers without material undue delay or inconvenience.

In view of the above, despite the continuation of the connected transactions, our Directors are of the view that we will be able to operate independently from our Controlling Shareholders and/or their respective close associates as we do not place undue reliance on our Controlling Shareholders and/or their respective close associates in respect of the continuing connected transactions after the Listing.

Save as disclosed in this prospectus, our suppliers and customers are all independent from our Controlling Shareholders. We do not rely on our Controlling Shareholders or their close associates and have our independent access to our suppliers for the provision of services and materials.

### **Financial independence**

We have our own accounting and finance department and independent financial system and make financial decisions according to our own business needs. We also have our own treasury function and independent access to third party financing. During the Track Record Period and as at the Latest Practicable Date, our Controlling Shareholders or their associates have provided certain security and/or guarantee in relation to our bank borrowings/facilities. Please refer to “Financial Information — Indebtedness” and Note 25 to the Accountant’s Report set out in Appendix I to this prospectus for further details. The bank that granted us the outstanding banking facilities as at the Latest Practicable Date has agreed that the personal guarantees of Mr. Or Naam and Ms. Chan in respect of such facilities be released and replaced by a corporate guarantee by our Company upon, among others, the successful Listing.

We have also been in discussion with different banks for obtaining long-term banking facilities and are offered with (i) a term loan of up to HK\$30,000,000 for a period of 10 years by Bank A; and (ii) a term loan of up to HK\$30,000,000 for a period of five years by Bank B. Based on the discussions with the banks, they have both indicated their willingness to replace the personal guarantees from our Controlling Shareholder with the corporate guarantees of our Company upon Listing. Based on the foregoing, our Directors believe that our Group is able to obtain long-term banking facilities without relying on the collaterals and personal guarantees from our Controlling Shareholders upon Listing.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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In view of our Group's internal resources and the estimated net proceeds from the Share Offer, our Directors believe that our Group will have sufficient capital for its financial needs without dependence on our Controlling Shareholders. Our Directors further believe that, upon the Listing, our Group is capable of obtaining financing from external sources independently without the support of our Controlling Shareholders.

### NON-COMPETITION UNDERTAKING

Our Controlling Shareholders (each a "**Covenantor**" and collectively, the "**Covenantors**") entered into the Deed of Non-Competition in favour of our Company, under which each of the Covenantors has irrevocably and unconditionally, jointly and severally, warranted and undertaken to our Company (for ourselves and as trustee for each of its subsidiaries) that:

- (a) he/she/it will not, and will procure any Covenantor and his/her/its close associates (each a "**Controlled Person**" and collectively, the "**Controlled Persons**") and any company directly or indirectly controlled by the Covenantor (which for the purpose of the Deed of Non-Competition, shall not include any member of our Group) (the "**Controlled Company**") not to, except through any member of our Group, directly or indirectly (whether as principal or agent, through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise), carry on, engage in, invest or be interested or otherwise involved in any business that is similar to or in competition with or is likely to be in competition with any business carried on or contemplated to be carried on by any member of our Group from time to time or in which any member of our Group is engaged or has invested or is otherwise involved in or which any member of our Group has otherwise publicly announced its intention to enter into, engage in or invest in (whether as principal or agent and whether directly or through any body corporate, partnership, joint venture, or other contractual or other arrangement) in any territory that our Group carries on its business from time to time ("**Restricted Business**");
- (b) when any Controlled Person and/or any Controlled Company is offered or becomes aware of any new project or business opportunity ("**New Business Opportunity**") directly or indirectly to engage or become interested in a Restricted Business, he/she/it (i) shall promptly notify our Company of such New Business Opportunity in writing, refer the same to our Company for consideration first and provide such information as may be reasonably required by our Company to make an informed assessment of such New Business Opportunity; and (ii) shall not, and shall procure that the Controlled Persons or Controlled Company shall not, invest or participate in any such New Business Opportunity unless such New Business Opportunity shall have been declined by our Company and the principal terms of which he/she/it and/or his/her/its close associates invest or participate in are no more favourable than those made available to our Company.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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The restrictions which each of the Covenantors has agreed to undertake pursuant to the non-competition undertaking will not apply to such Covenantors in the circumstances where he/she/it has the holding of or interests in shares or other securities by any of the Covenantors and/or his/her/its close associates in any company which conducts or is engaged in any Restricted Business, provided that, in the case of such shares, they are listed on a recognised stock exchange as specified under the SFO and either:

- (a) the relevant Restricted Business (and assets relating thereto) accounts for less than 10% of the relevant combined turnover or combined assets of the company in question, as shown in the latest audited accounts of the company in question; or
- (b) the total number of the shares held by any of the Covenantors and his/her/its close associates or in which they are together interested does not amount to more than 5% of the issued shares of that class of the company in question, provided that any of the Covenantors and his/her/its close associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of that company and that at all times there is a holder of such shares holding (together, where appropriate, with its close associates) a larger percentage of the shares in question than the Covenantors and his/her/its close associates together hold.

The non-competition undertaking will take effect from the date on which dealings in the Shares first commence on GEM and will cease to have any effect upon the earliest of the date on which (i) such Covenantor, being a Controlling Shareholder, individually or collectively with any other Covenantor(s) ceases to be interested, directly or indirectly, in 30% or more of the issued Shares, or otherwise ceased to be regarded as controlling shareholder (as defined under the GEM Listing Rules from time to time) of our Company; or (ii) the Shares cease to be listed and traded on GEM or other recognised stock exchange.

## CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of the Shareholders:

- (a) the Articles provide that a Director shall absent himself/herself from participating in Board meetings (nor shall he/she be counted in the quorum) and voting on any resolution of the Board approving any contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested unless a majority of the independent non-executive Directors expressly requested him/her to attend;
- (b) the independent non-executive Directors will review and will disclose decisions with basis, on an annual basis, the compliance with the non-competition undertaking by our Controlling Shareholders;

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (c) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the non-competition undertaking;
- (d) our Company will disclose decisions with basis on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-competition undertaking of the Controlling Shareholders in the annual reports of our Company or otherwise by way of announcements published by our Company;
- (e) our Controlling Shareholders will make an annual declaration on compliance with their non-competition undertaking in the annual report of our Company;
- (f) our Company has appointed Lego Corporate Finance Limited as the compliance adviser, which upon enquiry of our Company, will provide advice and guidance to our Company in respect of compliance with the GEM Listing Rules;
- (g) the independent non-executive Directors will be responsible for deciding whether or not to allow our Controlling Shareholders and/or their respective close associates to involve or participate in a Restricted Business and if so, any condition to be imposed; and
- (h) the independent non-executive Directors may appoint independent financial adviser and other professional advisers as they consider appropriate to advise them on any matter relating to the non-competition undertaking or connected transaction(s) at the cost of our Company.

Further, any transaction that is proposed between our Group and our Controlling Shareholders and their respective close associates will be required to comply with the requirements of the GEM Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

None of the members of our Group has experienced any dispute with its shareholders or among its shareholders themselves and our Directors believe that each member of our Group has maintained positive relationship with its shareholders. With the corporate governance measures comprising the measures set out above, our Directors believe that the interest of the Shareholders will be protected.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Our Board is responsible and has general power for the management and conduct of our business. Our Board consists of three executive Directors and three independent non-executive Directors.

Name	Age	Position	Time of joining our Group	Date of appointment as a Director	Main roles and responsibilities	Relationship with other Directors and senior management (other than that through or relating to our Group)
Mr. Or Naam (柯枏先生)	48	Executive Director	January 1995	8 February 2017	Overseeing all aspects of the operations, strategic planning, formulation of corporate policies and new business initiatives	Spouse of Ms. Chan, son of Ms. Chu, brother of Mr. Or Huen and brother-in-law of Ms. HM Chan
Ms. Chan Hoi Yan Polly (陳凱欣女士)	45	Executive Director	January 1995	27 February 2017	Overseeing day-to-day operations in Hong Kong including sales and marketing, business development, merchandising, design and finance	Spouse of Mr. Or Naam, daughter-in-law of Ms. Chu, sister-in-law of Mr. Or Huen and sister of Ms. HM Chan
Mr. Or Huen (柯烜先生)	40	Executive Director	June 2002	27 February 2017	Overseeing day-to-day operations in the PRC including sales and marketing, product research and development, merchandising and production, quality control, strategic planning and new business initiatives	Brother of Mr. Or Naam, son of Ms. Chu and brother-in-law of Ms. Chan
Mr. Tan Chong Huat (陳聰發先生)	53	Independent non-executive Director and non-executive chairman	September 2017	29 September 2017	Overseeing the management and providing independent advice to our Group	N/A
Mr. Sung Chi Keung (宋治強先生)	42	Independent non-executive Director	September 2017	29 September 2017	Overseeing the management and providing independent advice to our Group	N/A
Mr. Wong, Irving Holmes Weng Hoong	46	Independent non-executive Director	September 2017	29 September 2017	Overseeing the management and providing independent advice to our Group	N/A

### DIRECTORS

#### Executive Director, CEO of our Company

**Mr. Or Naam** (柯枏先生), aged 48, is one of the founders of our Group and has been with our Group since 1995. He was appointed as a Director on 8 February 2017 and re-designated as an executive Director and chief executive officer of our Company on 27 February 2017. Mr. Or Naam is currently a director of Takbo and B&B, where he oversees all aspects of the operations of our Group including sales and marketing, product development, merchandising, production, design, research, strategic planning, formulation of corporate policies and new business initiatives. His key focus is to further establish and manage our Group's overseas customers.



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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Or Naam is an entrepreneur. Over the past 22 years, he has gained start-up and operational experience in manufacturing and sales of packaging products (including beauty bags) and beauty products. In 1995, he joined our Group to design, develop and sell packaging products.

Capitalising on our Group's experience in selling packaging products including seasonal and promotional beauty products gift packages, Mr. Or Naam further expanded our Group's business by providing "one-stop-service" to its customers, and our Group commenced the manufacturing of beauty products, from design, research, development and sourcing, to complement the packaging products for export to the U.S. and other markets.

Mr. Or Naam completed the AFS Year Programme, an intercultural, international, voluntary and non-governmental exchange programme which aims to provide local youth with complete and in-depth international cultural exchange opportunities, and to promote exchanges and learning regarding language, academic study, daily life and culture, to enhance their quality as global citizens ("AFS Programme"), at Daws Road High School (now known as Pasadena High School) in Australia for the 1988 to 1989 academic year. Mr. Or Naam was also the board member of AFS Intercultural Exchanges Ltd. from September 2003 to December 2015.

Mr. Or Naam is the spouse of Ms. Chan, son of Ms. Chu, brother of Mr. Or Huen and brother-in-law of Ms. HM Chan.

Mr. Or Naam was a director of the following companies at the time or within 12 months from the time of their respective deregistration. The relevant details are as follows:

<u>Company name</u>	<u>Place of incorporation</u>	<u>Nature of business</u>	<u>Date of deregistration</u>
GPI Limited (仁野國際有限公司)	Hong Kong	Trading	24 July 2009
Artwoods Limited (藝森有限公司)	Hong Kong	Property holding	7 September 2012
Ever Ascent Limited (康仕有限公司)	Hong Kong	Trading	4 May 2001

The abovementioned companies were dissolved by voluntary dissolution pursuant to section 291AA of the Predecessor Companies Ordinance. Mr. Or Naam confirms that the companies listed above had been inactive and were solvent at the time of deregistration. Mr. Or Naam further confirms that there is no fraudulent act or misfeasance on his part leading to the deregistration of such companies and he is not aware of any actual or potential claim has been or will be made against him as a result of the deregistration of such companies.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### Executive Director

**Ms. Chan Hoi Yan, Polly** (陳凱欣女士), aged 45, has been with our Group since 1995. She was appointed as an executive Director on 27 February 2017. Ms. Chan is currently the general manager of Takbo and a director of B&B, where she oversees all day-to-day aspects of our operations in Hong Kong including sales and marketing, business development, merchandising, design and finance.

Ms. Chan is an entrepreneur. Over the past 22 years, she has gained experience in manufacturing and sales of packaging products (including beauty bags) and beauty products. She joined our Group in 1995 and rose through the ranks over the next 11 years to become general manager of Takbo in 2006.

Ms. Chan completed the AFS Programme at the King Edward VI School, Suffolk, in the United Kingdom, for the 1989 to 1990 academic year and obtained a Diploma in Design from the Hong Kong Polytechnic University in October 1992. Ms. Chan is the spouse of Mr. Or Naam, sister-in-law of Mr. Or Huen, daughter-in-law of Ms. Chu and sister of Ms. HM Chan.

Ms. Chan was a director of the following companies at the time or within 12 months from the time of their respective deregistration. The relevant details are as follows:

<u>Company name</u>	<u>Place of incorporation</u>	<u>Nature of business</u>	<u>Date of deregistration</u>
Ever Ascent Limited (康仕有限公司)	Hong Kong	Trading	4 May 2001
Mega Vision Trading Limited (宏景貿易有限公司)	Hong Kong	Trading	22 January 2016

The abovementioned companies were dissolved by voluntary deregistration pursuant to section 291AA of the Precedent Companies Ordinance (in the case of Ever Ascent Limited) and section 751 of the Companies Ordinance. Ms. Chan confirms that the companies listed above had been inactive and were solvent at the time of deregistration. Ms. Chan further confirms that there is no fraudulent act or misfeasance on her part leading to the deregistration of such companies and she is not aware of any actual or potential claim has been or will be made against her as a result of the deregistration of such companies.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### Executive Director

**Mr. Or Huen** (柯烜先生), aged 40, has been with our Group since 2002. He was appointed as an executive Director on 27 February 2017. Mr. Or Huen is currently the general manager and director of Cosbe, where he oversees all day-to-day aspects of our operations in the PRC including sales and marketing, product research and development, merchandising and production, quality control, strategic planning and new business initiatives.

Mr. Or Huen is an entrepreneur. He has over 14 years of experience in manufacturing and sales of beauty products. Mr. Or Huen was a founding member of Cosbe and has been the general manager since its founding in 2002. At Cosbe Mr. Or Huen planned and built Cosbe's production facility. He established the key business divisions, the four pillars of Cosbe, namely the marketing centre, the development centre, the production centre and the quality control centre.

Mr. Or Huen completed the AFS Programme at Bear River High School in the U.S. for the 1993 to 1994 academic year.

Mr. Or Huen obtained a Bachelor of Science Degree in Molecular Biotechnology (Major) and Fine Art (Minor) from the Chinese University of Hong Kong in November 2001. Mr. Or Huen is the brother of Mr. Or Naam, son of Ms. Chu and brother-in-law of Ms. Chan.

Mr. Or Huen was a director of the following company at the time or within 12 months from the time of its deregistration. The relevant details are as follows:

<u>Company name</u>	<u>Place of incorporation</u>	<u>Nature of business</u>	<u>Date of deregistration</u>
Power Excel Limited (力卓有限公司)	Hong Kong	Property holding	22 May 2015

The above company was dissolved by voluntary deregistration pursuant to section 751 of the Companies Ordinance. Mr. Or Huen confirms that the company listed above had been inactive and was solvent at the time of deregistration. Mr. Or Huen further confirms that there is no fraudulent act or misfeasance on his part leading to the deregistration of such company and he is not aware of any actual or potential claim has been or will be made against him as a result of the deregistration of such company.

### Independent non-executive Director, Remuneration Committee Chairman, Non-executive Chairman of our Board

**Mr. Tan Chong Huat** (陳聰發先生), aged 53, was appointed as an independent non-executive Director on 29 September 2017. Mr. Tan has been the senior partner and one of the founding members of RHTLaw Taylor Wessing since May 2011. Mr. Tan also serves as a member of the International Management Board of Taylor Wessing and as the Managing Partner of RHTLaw Taylor Wessing.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Tan has extensive experience in corporate, banking and project finance law in Singapore and the region, and acted in numerous significant corporate transactions in the areas of initial public offerings, reverse takeovers, management buy-outs, restructuring, merger and acquisitions, and financing of major real estate and infrastructure. He has been named a leading practitioner in many reputable professional publications, with a recent recognition by IFLR1000 as a “Leading Lawyer” and by Legal 500 Asia Pacific as a “Leading Individual” for Corporate and Mergers & Acquisitions.

Mr. Tan was appointed as Deputy Chairman of the Singapore Exchange Disciplinary Committee on 23 February 2017. Mr. Tan is also a Fellow with the Singapore Institute of Directors and sits on the boards of companies listed on the Singapore Exchange: as the non-executive chairman of Ramba Energy Limited (SGX:R14) since 17 February 2004 and P99 Holdings Limited (SGX:5UV) (a company which proposes to undergo members’ voluntary liquidation and delisting from the Singapore Exchange) since 18 March 2015, and as an independent director of SIIC Environment Holdings Limited (SGX:BHK) since 7 April 2010. Mr. Tan was also an independent director of Ascendas Hospitality Trust Management Pte Limited (SGX:Q1P) and Ascendas Hospitality Fund Management Pte Limited between May 2012 and 30 September 2017.

Mr. Tan started his career in 1990 as an Associate at Colin Ng & Partners and moved on to become an Associate at Shook Lin & Bok (between 1992 and 1994), a Senior Associate at Tan Jin Hwee, Eunice & Lim Choo Eng (between 1994 and 1995), a Partner at Colin Ng & Partners (between 1995 and 2001), a Partner at White & Case Colin Ng (between September 2001 and May 2003), a Director at Stamford Law Corporation (between May 2003 and March 2004) and eventually the Managing Partner and Head of the Corporate & Securities Department at KhattarWong (between April 2004 and May 2011). He left KhattarWong and co-founded RHTLaw Taylor Wessing in May 2011.

Despite his active practice and management duties, Mr. Tan continued to serve as an adjunct professorial faculty and lectured locally and overseas. He taught at the Law Faculty of the National University of Singapore, Business School of the National University of Singapore and Nanyang Business School of the Nanyang Technological University. He has also co-authored two leading titles on corporate governance and corporate finance law.

Mr. Tan obtained a Bachelor Degree in Law at the National University of Singapore in June 1989 and a LLM from the University of London (as External Student) in December 2007. He is an advocate & solicitor of the Supreme Court of Singapore, and a Solicitor of each of the Supreme Court of New South Wales, Australia, Supreme Court of England & Wales and the High Court of Hong Kong.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Tan was a director of the following companies which are struck off. The below companies were struck off with the consent of the majority of the then shareholders of those companies when those companies were solvent and had ceased business. The relevant details are as follows:

<u>Company name</u>	<u>Place of incorporation</u>	<u>Nature of business</u>	<u>Period of directorship</u>	<u>Date of struck off</u>
Eyedeal Pte Ltd	Singapore	Trading of contact lenses	From 4 September 1997 until 10 June 2000	23 May 2001
Amgen International Pte Ltd	Singapore	Financial holding	From 8 August 1996 until date not indicated on the record of Accounting and Corporate Regulatory Authority of Singapore (“ACRA”)	19 February 2000
Samwo Technology Pte Ltd	Singapore	Electronics	From 29 October 2003 until date not indicated on ACRA’s record	9 December 2009
Blue Whale Holdings Pte Ltd	Singapore	Electronics	From 29 October 2003 until date not indicated on ACRA’s record	9 December 2009
Bosstar Trading Pte Ltd	Singapore	Electronics	From 8 June 2004 until date not indicated on ACRA’s record	9 December 2009
China Marine Foods Group Pte Ltd	Singapore	Marine foods	From 28 August 2006 until date not indicated on ACRA’s record	5 June 2008
KW International Pte Ltd	Singapore	Translation services	From 7 April 2008 until date not indicated on ACRA’s record	14 July 2010
KW Nominees Pte Ltd	Singapore	Nominee services	From 15 October 2008 until date not indicated on ACRA’s record	11 February 2011

Mr. Tan confirms that the companies listed above had been inactive and were solvent at the time of struck off. Mr. Tan further confirms that there is no fraudulent act or misfeasance on his part leading to the struck off of such companies and he is not aware of any actual or potential claim has been or will be made against him as a result of the struck off of such companies.

### **Independent non-executive Director, Audit Committee Chairman**

**Mr. Sung Chi Keung** (宋治強先生), aged 42, was appointed as an independent non-executive Director on 29 September 2017. Mr. Sung has over 19 years of experience in financial management, accounting, taxation, auditing and corporate finance and previously worked for KPMG, PricewaterhouseCoopers Ltd. and Deloitte & Touche Corporate Finance Ltd. Since April 2015, he has been the chief financial officer of China Chuanglian Education Financial Group Limited (formerly known as China Chuanglian Education Group Limited, China Oriental Culture Group Limited and ZZNode Technologies Company Limited), a company listed on the main board of the Hong Kong Stock Exchange (stock code: 2371).

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Previously, between 15 January 2007 and 30 June 2013, Mr. Sung was an executive director of Asian Citrus Holdings Limited, a company listed on the main board of the Hong Kong Stock Exchange (stock code:73) (and formerly listed on the AIM of the London Stock Exchange (stock code: ACHL)). He was also the finance director and the company secretary between August 2004 and June 2013. Between August 2013 and March 2015, Mr. Sung was the chief financial officer and company secretary of China Green (Holdings) Limited (formerly known as China Culiangwang Beverages Holdings Limited), a company listed on the main board of the Hong Kong Stock Exchange (stock code: 904).

Mr. Sung obtained a Bachelor Degree in Business Administration, majoring in Professional Accountancy from the Chinese University of Hong Kong in December 1997 and a Master Degree in Corporate Finance from the Hong Kong Polytechnic University in December 2006. He is an associate member of the HKICPA and a fellow member of the Association of Chartered Certified Accountants.

### **Independent non-executive Director, Nomination Committee Chairman**

**Mr. Wong, Irving Holmes Weng Hoong**, aged 46, was appointed as an independent non-executive Director on 29 September 2017. Mr. Wong has approximately two decades of managing businesses in the FMCG (fast-moving consumer goods) industry. Since February 2016, he has been the Managing Director, Greater China for Bacardi (based in Shanghai), responsible for the growth of the portfolio of Bacardi premium brands such as Grey Goose, Bombay Sapphire, Dewar's, Martini, Aberfeldy, Aultmorec. Prior to this appointment, Mr. Wong was the Regional Director, Asia-Pacific, Middle-East & Africa regions for the Global Travel Retail division (based in Hong Kong) for Bacardi since 2013.

Mr. Wong was in the Beauty/Skincare industry for more than 15 years, predominantly with the L'Oreal Group. In 1998, he joined L'Oreal Malaysia where he held various management roles such as Merchandising Manager and National Sales Manager – Food/General Trade before being relocated to L'Oreal Hong Kong in 2007 as General Manager of Consumer Products Division.

In 2009, Mr. Wong joined the Clorox Group in the Asia region as General Manager — Asia for Clorox's newly acquired Burt's Bees brand. At Clorox, Mr. Wong opened new markets in Korea, Thailand, Malaysia and Singapore and further developed the previously established business in Japan, Hong Kong and Taiwan. He helped shaped a new business model for the Asian market (premium retail) which led to the rapid growth of Burt's Bees business in Asia. In 2011, Mr. Wong was appointed Managing Director, Hong Kong and Taiwan for the Revlon Group.

Mr. Wong obtained a Master's Degree in Business Administration from the University of Leicester, United Kingdom in January 2003 and had executive education from Harvard University in July 2016.

<u>Company name</u>	<u>Place of incorporation</u>	<u>Nature of business</u>	<u>Date of dissolution</u>
IWHC Venture Sdn Bhd	Malaysia	Trading of beauty and cosmetics products	22 December 2016

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Wong confirms that the company listed above had been inactive and was solvent at the time of dissolution. Mr. Wong further confirms that there is no fraudulent act or misfeasance on his part leading to the dissolution of such company and he is not aware of any actual or potential claim has been or will be made against him as a result of the dissolution of such company.

Save as disclosed in this prospectus, each of our Directors has confirmed that (i) he/she has no interests in the Shares within the meaning of Part XV of the SFO; (ii) he/she is independent from, and is not related to, any other Directors, members of senior management, substantial Shareholders or Controlling Shareholders; (iii) he/she has not held any directorship in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years; and (iv) there is no other information which is required to be disclosed pursuant to any of the requirements under the GEM Listing Rules nor are there any matters which need to be brought to the attention of the Shareholders in connection with his/her appointment as a Director.

### SENIOR MANAGEMENT

Our senior management comprises all of the executive Directors, the financial controller and the company secretary, and certain managerial positions. Our senior management is responsible for the day-to-day management of our Company's business. For the biographical details of our executive Directors who form part of the senior management, please refer to "— Directors". The table below set forth certain information concerning the senior management, apart from our executive Directors:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Roles and responsibilities</u>	<u>Year of joining our Group</u>
Mr. Leung Chu Ho (梁儲豪先生)	32	Group financial controller	Financial planning and control, accounting operations and internal control systems	2016
Ms. Lui Shuet Ching (雷雪清女士)	47	Accounting and finance manager	Accounting and finance management	1995
Ms. Chan Hoi Man (陳凱雯女士)	38	Merchandising manager	Management of the merchandising team	1997
Ms. Chu Choi Yin (朱彩燕女士)	36	Sales manager	Management of the product development, customer service and sales team	2005

**Mr. Leung Chu Ho** (梁儲豪先生), aged 32, is the financial controller of our Group. Mr. Leung joined our Group in December 2016. He is responsible for financial planning, reporting and control, and internal control systems of our Group. Mr. Leung has over 10 years of experience in accounting and auditing. Prior to joining our Group, Mr. Leung worked at PricewaterhouseCoopers from April 2010 to December 2016 and his last position was an assurance manager. Prior to that, he worked at Shinewing (HK) CPA Limited from September 2007 to April 2010 and his last position was a semi-senior accountant.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. Leung received a Bachelor of Science in Economics and Finance from the Hong Kong University of Science and Technology in November 2007. He is a member of the HKICPA since September 2011 and a financial risk manager of Global Association of Risk Professionals since September 2010.

**Ms. Lui Shuet Ching** (雷雪清女士), aged 47, is the accounting and finance manager of our Group. Ms. Lui joined our Group in September 1995 as a clerk of the account department and was promoted to her current position in April 2001. She is primarily responsible for supervising accounting operations, preparing accounting report, reviewing management report and monitoring cash flow status. Ms. Lui possesses over 20 years of experience in accounting and finance.

Ms. Lui passed the examinations held by the London Chamber of Commerce and Industry Examination Board in book-keeping and accounts (second level), cost accounting (second level) and accounting (third level) in 1989, 1993 and 1994, respectively. She also obtained a diploma in accounting and management in February 2006 from the Caritas Bianchi College of Careers (Evening) in Hong Kong and a diploma in business strategy and tactics in July 2008 from the Vocational Training Council in Hong Kong.

**Ms. Chan Hoi Man** (陳凱雯女士) (“**Ms. HM Chan**”), aged 38, is the merchandising manager of our Group. Ms. HM Chan joined our Group in May 1997 as a merchandiser and was promoted to her current position in February 2016. She is primarily responsible for leading and managing the operations of the merchandising team in the PRC, approving purchase orders of raw material for production, liaising with customers and providing price quotation. Ms. HM Chan has approximately 20 years of experience in the manufacturing industry. Ms. HM Chan is the sister of Ms. Chan.

**Ms. Chu Choi Yin** (朱彩燕女士) (“**Ms. CY Chu**”), aged 36, is the sales manager of our Group. Ms. CY Chu joined our Group in October 2005 as a sales executive and was promoted to her current position in April 2013. She is responsible for product development and customer service, as well as leading the sales team in the PRC to monitor the progress of projects. Ms. CY Chu has over 11 years of experience in the sales and marketing industry. Prior to joining our Group, Ms. CY Chu was a merchandiser at Ellon Gift Products Ltd. from August 2001 to June 2003.

Save as disclosed in this prospectus, none of our members of senior management has held any directorship in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years.

### COMPANY SECRETARY

**Mr. Ng Chit Sing** (吳捷陞先生), aged 45, was appointed as our company secretary on 27 February 2017. He is the Chief Executive Officer of IN Corporate Services Limited specialising in the provision of corporate secretarial services to listed issuers and private companies.



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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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From February 2016 to present, Mr. Ng was the named company secretary of AL Group Limited, a company listed on the GEM (Stock code: 8360). From May 2015 to present, Mr. Ng was the named company secretary of Yestar Healthcare Holdings Company Limited (formerly known as Yestar International Holdings Company Limited), a company listed on the Main Board of the Stock Exchange (Stock code: 2393). Mr. Ng served as a Senior Company Secretarial Manager of SMI Culture & Travel Group Holdings Limited (formerly known as SMI Culture Group Holdings Limited and Qin Jia Yuan Media Services Company Limited) (Stock code: 2366), a company listed on the Main Board of the Stock Exchange from April 2010 to November 2010 and was appointed as company secretary from December 2010 to September 2011. Mr. Ng served as a director of BMS Corporate Services Limited, a corporate secretary firm, for the period from November 2011 to October 2013.

Mr. Ng was admitted as an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in England in July 2000. Mr. Ng received a Bachelor's Degree in Social Sciences from Lingnan College in 1996 and a Bachelor's Degree in Laws which was a long distance course from the University of London in August 2008.

During the three years immediately preceding the date of this prospectus, Mr. Ng has not been a director of a public company, the securities of which are listed on any securities market in Hong Kong or overseas.

### COMPLIANCE OFFICER

Ms. Chan serves as the compliance officer of our Company for the purpose of the GEM Listing Rules. Please refer to “— Directors” for her biography.

### REMUNERATION POLICY

The aggregate amounts of remuneration (comprising fees, salaries, other allowances and benefits in kind, discretionary bonuses and contribution to pension schemes) of our Directors for the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017 were approximately HK\$5.1 million, HK\$8.1 million, HK\$1.5 million and HK\$1.6 million, respectively. The aggregate amounts of salaries, other allowances and benefits, and contributions to pension schemes of our five highest paid individuals (excluding the emoluments paid to our Directors) for the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017 were approximately HK\$2.1 million, HK\$2.0 million, HK\$0.5 million and HK\$0.6 million, respectively. Details of the arrangement for remuneration are set out in Note 11 to the Accountant's Report in Appendix I to this prospectus. Under such arrangement and pursuant to our Directors' service contracts and letters of appointment referred to in “Statutory and General Information — Further information about Directors, management and staff — 9. Directors — (a) Particulars of service contracts and letters of appointment” in Appendix IV to this prospectus, the aggregate amount of Directors' fee and other emoluments payable to our Directors (excluding any discretionary bonuses) for the year ending 31 December 2017 is estimated to be approximately HK\$5.7 million.

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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Our Group's principal policies concerning remuneration of Directors or staff of high calibre are determined based on the relevant Director's or staff's duties, responsibilities, experience and skills. Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. Our Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to our Group or executing their functions in relation to our operations. Our Company regularly reviews and determines the remuneration and compensation packages of our Directors and senior management. Our Company provides discretionary bonuses to our senior management and key employees as incentive.

Our Company has conditionally adopted the Share Option Scheme on 29 September 2017 to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. Please refer to "Statutory and General Information — Share Option Scheme" in Appendix IV to this prospectus.

After Listing, our Remuneration Committee will review and determine the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and senior management, and performance of our Group.

During the Track Record Period, no remuneration was paid by our Company to, or received by, our Directors as an inducement to join or upon joining our Company.

### **EMPLOYEES**

We recognise the importance of having a good relationship with our employees. The remuneration payable to the employees comprise salaries and allowances.

We have not experienced any significant problems with the recruitment and retention of experienced employees. In addition, we have not suffered from any material disruption of our normal business operations as a result of labour disputes or strikes.

### **BOARD COMMITTEES**

The Audit Committee, Remuneration Committee, Nomination Committee of our Company were approved to be established by resolutions passed by our Board on 29 September 2017.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Each of the three committees has written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules (the “CG Code”). The functions of the three committees are summarised as follows:

<u>Committee</u>	<u>Mr. Or Naam**</u>	<u>Mr. Or Huen</u>	<u>Mr. Tan Chong Huat***</u>	<u>Mr. Sung Chi Keung</u>	<u>Mr. Wong, Irving Holmes Weng Hoong</u>
Audit			X	X*	X
Nomination		X		X	X*
Remuneration	X		X*	X	

\* Chairman of Committee

\*\* CEO of our Company

\*\*\* Non-executive Chairman of our Board

### **Audit Committee**

Our Company established an audit committee on 29 September 2017 by a resolution of the Board passed on even date with written terms of reference in compliance with Rule 5.28 to 5.33 of the GEM Listing Rules and paragraphs C3.3 and C3.7 of the CG Code. The audit committee comprises three independent non-executive Directors: Mr. Sung Chi Keung, Mr. Tan Chong Huat and Mr. Wong, Irving Holmes Weng Hoong. Mr. Sung was appointed to serve as the chairman of the audit committee. The primary duties of our audit committee are mainly to make recommendations to the Board on the appointment and dismissal of the external auditor, review the financial statements and information and provide advice in respect of financial reporting and oversee the risk management and internal control systems of our Company.

### **Remuneration Committee**

Our Company established a remuneration committee on 29 September 2017 by a resolution of the Board passed on even date with written terms of reference in compliance with Rule 5.34 to 5.36 of the GEM Listing Rules and paragraph B.1.2 of the CG Code. The remuneration committee comprises two independent non-executive Directors and one executive Director: Mr. Tan Chong Huat, Mr. Sung Chi Keung and Mr. Or Naam. Mr. Tan was appointed as the chairman of the remuneration committee. The primary functions of our remuneration committee are to make recommendations to the Board on the overall remuneration policy and the structure relating to all Directors and senior management of our Group, review performance-based remuneration and ensure none of our Directors determine their own remuneration.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### Nomination Committee

Our Company established a nomination committee on 29 September 2017 by a resolution of the Board passed on even date with written terms of reference in compliance with paragraph A.5.2 of the CG Code. The nomination committee comprises one executive Director and two independent non-executive Directors: Mr. Or Huen, Mr. Sung Chi Keung and Mr. Wong, Irving Holmes Weng Hoong. Mr. Wong was appointed as the chairman of the nomination committee. The primary functions of our nomination committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations to the Board on any proposed changes to the Board to complement our Company's corporate strategy; identify individuals suitably qualified as potential Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; to assess the independence of our independent non-executive Directors; and make recommendations to the Board on the appointment or reappointment of Directors and succession planning of Directors, in particular that of our chairman and the chief executive officer.

### COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Our Company will comply with the CG Code.

Our Directors will review our corporate governance policies and compliance with the CG Code each financial year and comply with the "comply or explain" principle in our corporate governance report which will be included in our annual reports upon the Listing.

### COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, we have appointed Lego Corporate Finance Limited as the compliance adviser. The compliance adviser will have access to all relevant records and information relating to our Company that it may reasonably require to properly perform its duties. Pursuant to Rule 6A.23 of the GEM Listing Rules, our Company must consult with and, if necessary, seek advice from the compliance adviser on a timely basis in the following circumstances:

- (i) before the publication of any regulatory announcement, circular, or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (iii) where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry to our Company in accordance with Rule 17.11 of the GEM Listing Rules.

The term of appointment of the compliance adviser shall commence on the Listing Date and is expected to end on the date on which we comply with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date.

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## SUBSTANTIAL SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDERS

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account of the Shares which may be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme), based on the information available on the Latest Practicable Date, the following persons/entities will have an interest or a short position in the Shares or underlying Shares which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

Name	Capacity/ Nature of interest	Immediately following completion of the Share Offer	
		Number of Shares held after the Share Offer <sup>Note 1</sup>	Percentage of shareholding after the Share Offer
Mr. Or Naam	Interest in controlled corporation <sup>Note 2</sup>	300,000,000 Shares (L)	75%
Ms. Chan	Interest in controlled corporation <sup>Note 2</sup>	300,000,000 Shares (L)	75%
Ms. Chu	Interest in controlled corporation <sup>Note 2</sup>	300,000,000 Shares (L)	75%
Mr. TM Or	Family interest <sup>Note 3</sup>	300,000,000 Shares (L)	75%
Classic Charm	Beneficial owner	300,000,000 Shares (L)	75%

*Notes:*

- (1) The Letter "L" denotes the person's long position in the relevant Shares.
- (2) The entire issued share capital of Classic Charm is legally and beneficially owned as to 50.8% by Mr. Or Naam, 39.7% by Ms. Chu and 9.5% by Ms. Chan. As Mr. Or Naam, Ms. Chan and Ms. Chu are parties acting in concert, they are deemed to be interested in 300,000,000 Shares held by Classic Charm by virtue of the SFO.
- (3) Mr. TM Or is the spouse of Ms. Chu, as such, Mr. TM Or is deemed to be interested in all the Shares held/ owned by Ms. Chu (through Classic Charm) by virtue of the SFO.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the Share Offer and the Capitalisation Issue (without taking into account the Shares which may be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme), have an interest or short position in the Shares or underlying Shares which

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## SUBSTANTIAL SHAREHOLDERS

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would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

### UNDERTAKINGS

Each of the Controlling Shareholders has given certain undertakings in respect of the Shares held by them to our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters and the Stock Exchange, details of which are set out in “Underwriting — Undertakings to the Stock Exchange under the GEM Listing Rules”.

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## CONNECTED TRANSACTIONS

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### CONNECTED TRANSACTIONS

Our Group has entered into certain transactions with our Company's connected persons during the Track Record Period. These transactions will continue after Listing and constitute continuing connected transactions (as defined under the GEM Listing Rules) of our Group. Details of these transactions are as follows:

### CONNECTED PERSONS

Sky Choice is a limited liability company incorporated in Hong Kong and owned in equal shares by Mr. Or Naam (being our executive Director and Controlling Shareholder) and Ms. Chu (being our Controlling Shareholder). Sky Choice is therefore an associate of theirs and accordingly is a connected person of our Company.

Smart Path is a limited liability company incorporated in Hong Kong and owned in equal shares by Mr. Or Naam and Ms. Chan (both being our executive Directors and Controlling Shareholders). Smart Path is therefore an associate of theirs and accordingly is a connected person of our Company.

Baoma is a limited liability company established in the PRC and wholly-owned by Tak Bo Hong, a partnership between Ms. Chu and her spouse, Mr. TM Or. As Ms. Chu is our Controlling Shareholder, Baoma is an associate of hers and is therefore a connected person of our Company.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following table sets out an overview of the continuing connected transactions of our Company upon Listing:

<u>No.</u>	<u>Agreement</u>	<u>Nature</u>	<u>Parties</u>	<u>Historical amounts during the Track Record Period (Approximate)</u>	<u>Annual Caps for each of the three years ending 31 December 2019 (HK\$)</u>
1.	Hong Kong Office Tenancy Agreement/New Hong Kong Office Tenancy Agreement	Hong Kong Office Rental	Takbo and Sky Choice	2015: Nil 2016: HK\$585,000 Four months ended 30 April 2017: HK\$292,000	877,200
2.	Residential Tenancy Agreement/New Residential Tenancy Agreement	Residential Rental	Takbo and Smart Path	2015: HK\$1.2 million 2016: HK\$1.2 million Four months ended 30 April 2017: HK\$400,000	1.2 million

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## CONNECTED TRANSACTIONS

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No.	Agreement	Nature	Parties	Historical amounts during the Track Record Period (Approximate)	Annual Caps for each of the three years ending 31 December 2019 (HK\$)
3.	Factory Tenancy Agreement 1	Cosbe Facility Premise I rental	Cosbe and Baoma	2015: HK\$87,000 2016: HK\$119,000 Four months ended 30 April 2017: HK\$44,000	Total amount of Factory Tenancy Agreements 1 and 2: 1,550,000
	Factory Tenancy Agreement 2	Cosbe Facility Premise II rental	Cosbe and Baoma	2015: HK\$342,000 2016: HK\$380,000 Four months ended 30 April 2017: HK\$143,000	
	Factory Tenancy Agreement 3	New Cosbe Facility Premise I rental	Cosbe and Baoma	2015: Nil 2016: Nil Four months ended 30 April 2017: HK\$119,000	Total amount of Factory Tenancy Agreements 3 and 4 1.1 million, 4.3 million and 4.3 million, respectively
	Factory tenancy Agreement 4	New Cosbe Facility Premise II rental	Cosbe and Baoma	Take effect from 1 November 2017, no rental was paid	
	PRC Office Tenancy Agreement/New PRC Office Tenancy Agreement	PRC representative office rental	Takbo and Baoma	2015: Nil 2016: Nil Four months ended 30 April 2017: HK\$10,000	42,000, 53,000 and 53,000, respectively
4.	Purchase Framework Agreement	Purchase of beauty bags	Takbo and Baoma	2015: HK\$13.1 million 2016: HK\$13.3 million Four months ended 30 April 2017: HK\$4.5 million	13.5 million

Please also refer to “Business — Properties” for a summary of the various properties we leased from connected persons of our Company as at the Latest Practicable Date.

### 1. Lease of office premise from Sky Choice

During the Track Record Period, Takbo rented its Hong Kong office premise from Sky Choice. On 13 December 2016, Takbo (as tenant) and Sky Choice (as landlord) entered into a tenancy agreement (the “**Hong Kong Office Tenancy Agreement**”), pursuant to which Sky Choice agreed to lease and Takbo agreed to take the office premise situated at Room B, 35th Floor, EGL



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## CONNECTED TRANSACTIONS

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Tower, 83 Hung To Road, Kwun Tong, Kowloon, Hong Kong (“**EGL Tower**”) and car parking space nos. P24, P25 and P26 located on 2nd Floor, EGL Tower, for the period commencing from 25 April 2016 and expiring on 31 December 2017 (both days inclusive), at a monthly rental of HK\$73,100 (“**Hong Kong Office Rental**”) payable monthly in advance.

For the two years ended 31 December 2016, the total annual rental under the Hong Kong Office Tenancy Agreement were nil and approximately HK\$585,000, respectively. For the four months ended 30 April 2017, the total rental paid under the Hong Kong Office Tenancy Agreement was approximately HK\$292,000.

On 29 September 2017, Takbo (as tenant) and Sky Choice (as landlord) entered into a new tenancy agreement (“**New Hong Kong Office Tenancy Agreement**”) on the same terms as the Hong Kong Office Tenancy Agreement, for a period of three years effective from the Listing Date, which shall replace and supersede the Hong Kong Office Tenancy Agreement. The continued use of EGL Tower would prevent us from having to relocate which would lead to unnecessary business disruption and costs.

The New Hong Kong Office Tenancy Agreement can be terminated during the term by either party serving three months’ prior written notice to the other party. The New Hong Kong Office Tenancy Agreement can be renewed by Takbo giving one month prior written notice to Sky Choice before the expiry of the term.

Each of the Hong Kong Office Rental and the monthly rental payable under the New Hong Kong Office Tenancy Agreement was arrived at after arm’s length negotiation and with reference to the prevailing market rate. In light of the above, our Directors (including our independent non-executive Directors) consider that the New Hong Kong Office Tenancy Agreement is entered into on normal commercial terms and is fair and reasonable and in our Company’s and our Shareholders’ interests as a whole.

The proposed annual caps for rental payable by Takbo under the New Hong Kong Office Tenancy Agreement (the “**Hong Kong Office Tenancy Annual Caps**”) for each of the three years ending 31 December 2017, 2018 and 2019 is HK\$877,200 per year. Our Directors confirmed that the Hong Kong Office Tenancy Annual Caps are determined based on the fixed monthly rental payable under the New Hong Kong Office Tenancy Agreement.

## 2. Lease of residential premise from Smart Path

During the Track Record Period, Takbo rented certain residential premises as staff quarters as detailed below as part of the remuneration package of two of our Directors, Mr. Or Naam and Ms. Chan. On 13 December 2016, Takbo (as tenant) and Smart Path (as landlord) entered into a tenancy agreement (the “**Residential Tenancy Agreement**”), pursuant to which Smart Path agreed to lease and Takbo agreed to take the residential premise situated at House 62, The Giverny, Man Kei Toi, Pak Sha Wan, Sai Kung, New Territories, Hong Kong for a period of three years commencing from 1 January 2015 and expiring on 31 December 2017 (both days inclusive), at a monthly rental of HK\$100,000 (“**Residential Rental**”) payable monthly in advance.

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## CONNECTED TRANSACTIONS

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For each of the two years ended 31 December 2016, the total annual rental under the Residential Tenancy Agreement was HK\$1.2 million per year. For the four months ended 30 April 2017, the total rental paid under the Residential Tenancy Agreement was HK\$0.4 million.

On 29 September 2017, Takbo (as tenant) and Smart Path (as landlord) entered into a new tenancy agreement (“**New Residential Tenancy Agreement**”) on the same terms as the Residential Tenancy Agreement, for a period of three years effective from the Listing Date, which shall replace and supersede the Residential Tenancy Agreement.

The New Residential Tenancy Agreement has no termination clause. The New Residential Tenancy Agreement can be renewed by Takbo giving one month prior written notice to Smart Path before the expiry of the term.

Each of the Residential Rental and the monthly rental payable under the New Residential Tenancy Agreement was arrived at after arm’s length negotiation and with reference to the prevailing market rate. In light of the above, our Directors (including our independent non-executive Directors) consider that the New Residential Tenancy Agreement is entered into on normal commercial terms and is fair and reasonable and is in our Company’s and our Shareholders’ interests as a whole.

The proposed annual caps for rental payable by Takbo under the New Residential Tenancy Agreement (the “**Residential Tenancy Annual Caps**”) for each of the three years ending 31 December 2017, 2018 and 2019 is HK\$1.2 million per year. Our Directors confirmed that the Residential Tenancy Annual Caps are determined based on the fixed monthly rental payable under the New Residential Tenancy Agreement.

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## CONNECTED TRANSACTIONS

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### 3. Leases of factory/office premises from Baoma

#### *Factory Tenancy Agreement 1*

During the Track Record Period, Cosbe rented its PRC factory, warehouse and office premise from Baoma for the Cosbe Facility. On 31 December 2016, Cosbe (as tenant) and Baoma (as landlord) entered into a tenancy agreement which is amended by a supplemental agreement dated 29 September 2017 (“**Factory Tenancy Agreement 1**”), pursuant to which Baoma agreed to lease and Cosbe agreed to take the factory, warehouse and office premise situated at No. 5 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC (中國廣東省汕頭市大學路金平區疊金工業區三片區金浦路5號) (the “**Cosbe Facility Premise I**”) with a gross floor area of 1,518 sq.m. Details of the key terms of the Factory Tenancy Agreement 1 are as follows:

Term:	For the period commencing from 1 March 2016 and ending on the 10th anniversary of the Listing Date.
Rent:	The annual rent will be RMB109,296 for the first year, RMB127,512 for the second year and RMB145,728 for the third year and afterwards.  The rent is payable quarterly in advance.
Utility expenses:	The monthly utility expenses of the Cosbe Facility Premise I such as water and electricity charges are also borne by Cosbe. Such monthly expenses are first paid for and on behalf of Cosbe by Baoma, which is subsequently reimbursed by Cosbe to Baoma based on the actual amount of the monthly utility expenses incurred and paid.

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## CONNECTED TRANSACTIONS

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**Renewal:** Cosbe may request Baoma to renew the lease by giving 90 days advance notice before the expiry of the lease, and Baoma shall not unreasonably refuse to renew the lease. If Baoma decides not to renew the lease, it must give Cosbe at least one year advance notice prior to the expiry of the lease.

If Baoma decides not to renew the lease, Baoma has undertaken to Cosbe that (i) it shall have an obligation to assist Cosbe in locating an alternative site for operation and to provide all reasonable assistance required for Cosbe's relocation; and (ii) it shall compensate Cosbe for economic losses (including loss of revenue) and necessary relocation expenses as a result of the relocation; and (iii) it shall allow Cosbe to occupy and use the premises until Cosbe's relocation is completed and the operation of Cosbe at the new premises has commenced.

**First right of refusal:** If Baoma decided to dispose of the premises, it shall give Cosbe one year advance notice. Cosbe shall have a first right of refusal to purchase the premises under the same conditions at the prevailing fair market price (or such amount to be determined by a jointly appointed independent third party valuer).

**Termination:** Either party may terminate the lease by giving one year advance notice to the other party, or otherwise compensate the other party the rental of the corresponding year for the period short of the notice period.

For the two years ended 31 December 2016, the total annual rental paid by Cosbe for the Cosbe Facility Premise I were approximately HK\$87,000 and HK\$119,000, respectively. For the four months ended 30 April 2017, the total rental paid by Cosbe for the Cosbe Facility Premise I was approximately HK\$44,000.

### *Factory Tenancy Agreement 2*

During the Track Record Period, Takbo rented certain factory premise from Baoma for Cosbe's office and production. Pursuant to the confirmation letter on oral tenancy dated 6 January 2017, Takbo (as the tenant) leased the factory premise situated at No. 5 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC (中國廣東省汕頭市大學路金平區疊金工業區三片區金浦路5號) (the "**Cosbe Facility Premise II**") with a gross floor area of 4,555 sq.m. from Baoma (as the landlord) for the period of two years commencing from 1 January 2015 and expiring on 31 December 2016.

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## CONNECTED TRANSACTIONS

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On 1 January 2017, Cosbe (as tenant) and Baoma (as landlord) entered into a tenancy agreement which is amended by a supplemental agreement dated 29 September 2017 (“**Factory Tenancy Agreement 2**”), pursuant to which Baoma agreed to lease and Cosbe agreed to take the same factory premise. Details of the key terms of the Factory Tenancy Agreement 2 are as follows:

**Term:** For the period commencing from 1 January 2017 and ending on the 10th anniversary of the Listing Date.

**Rent:** The annual rent will be RMB382,620 for the first year, RMB437,280 for the second year and RMB437,280 for the third year and afterwards.

The rent is payable quarterly in advance.

**Utility expenses:** The monthly utility expenses of the Cosbe Facility Premise II such as water and electricity charges are also borne by Cosbe. Such monthly expenses are first paid for and on behalf of Cosbe by Baoma, which is subsequently reimbursed by Cosbe to Baoma based on the actual amount of the monthly utility expenses incurred and paid.

**Renewal:** Cosbe may request Baoma to renew the lease by giving 90 days advance notice before the expiry of the lease, and Baoma shall not unreasonably refuse to renew the lease. If Baoma decides not to renew the lease, it must give Cosbe at least one year advance notice prior to the expiry of the lease.

If Baoma decides not to renew the lease, Baoma has undertaken to Cosbe that (i) it shall have an obligation to assist Cosbe in locating an alternative site for operation and to provide all reasonable assistance required for Cosbe’s relocation; and (ii) it shall compensate Cosbe for economic losses (including loss of revenue) and necessary relocation expenses as a result of the relocation; and (iii) it shall allow Cosbe to occupy and use the premises until Cosbe’s relocation is completed and the operation of Cosbe at the new premises has commenced.

**First right of refusal:** If Baoma decided to dispose of the premises, it shall give Cosbe one year advance notice. Cosbe shall have a first right of refusal to purchase the premises under the same conditions at the prevailing fair market price (or such amount to be determined by a jointly appointed independent third party valuer).

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## CONNECTED TRANSACTIONS

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Termination: Either party may terminate the lease by giving one year advance notice to the other party, or otherwise compensate the other party the rental of the corresponding year for the period short of the notice period.

For the two years ended 31 December 2016, the total annual rental paid by Cosbe for the Cosbe Facility Premise II were approximately HK\$342,000 and HK\$380,000, respectively. For the four months ended 30 April 2017, the total rental paid by Cosbe for the Cosbe Facility Premise II was approximately HK\$143,000.

### *Annual Caps for Factory Tenancy Agreement 1 and Factory Tenancy Agreement 2*

The respective annual rents payable under the Factory Tenancy Agreement 1 and the Factory Tenancy Agreement 2 were determined after arm's length negotiation between the parties thereto with reference to the then prevailing market rate of rent of local properties of similar size in proximity to the Cosbe Facility Premise I and the Cosbe Facility Premise II, respectively. The total utility expenses reimbursed by Cosbe to Baoma for the Cosbe Facility Premise I and the Cosbe Facility Premise II during the Track Record Period amounted to approximately HK\$0.7 million, HK\$0.6 million and HK\$0.2 million, respectively. As the Factory Tenancy Agreement 1 and the Factory Tenancy Agreement 2 relate to the same property, we have aggregated all rental amounts and utility expenses for the Cosbe Facility Premise I and the Cosbe Facility Premise II in calculating the proposed annual caps. The proposed annual caps for rental and utility expenses payable by Cosbe under the Factory Tenancy Agreement 1 and the Factory Tenancy Agreement 2 (the "**Factory Tenancy Annual Caps**") for each of the three years ending 31 December 2017, 2018 and 2019 is HK\$1,550,000 per year. Our Directors confirmed that the Factory Tenancy Annual Caps are determined after taking into account (i) historical amounts of utility expenses of approximately HK\$0.7 million and HK\$0.6 million for the two years ended 31 December 2016; (ii) the aggregated fixed annual rents payable under the Factory Tenancy Agreement 1 and the Factory Tenancy Agreement 2 of approximately RMB0.5 million for the first year, RMB0.6 million for the second year and RMB0.6 million for the third year and afterwards; and (iii) a buffer for increase in utility expenses and appreciation of RMB against HKD given the exchange rate ranged between HK\$1.00: RMB0.7880 and HK\$1.00: RMB0.8964 during the Track Record Period.

### *Factory Tenancy Agreement 3*

During the Track Record Period, Cosbe rented from Baoma its new PRC factory premise for the New Cosbe Facility. For further details on the setting up of the New Cosbe Facility, please refer to "Future Plans and Use of Proceeds — Business strategies and future plans". On 28 November 2016, Cosbe (as tenant) and Baoma (as landlord) entered into a tenancy agreement which is amended by a supplemental agreement dated 29 September 2017 ("**Factory Tenancy Agreement 3**"), pursuant to which Baoma agreed to lease and Cosbe agreed to take the factory premise situated at 1st to 4th Floors of South Building, No.1 Jinpu

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## CONNECTED TRANSACTIONS

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Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC (中國廣東省汕頭市大學路金平區疊金工業區三片區金浦路1號南面樓房一至四層廠房) (the “**New Cosbe Facility Premise I**”) with a gross floor area of 4,420 sq.m. Details of the key terms of the Factory Tenancy Agreement 3 are as follows:

**Term:** For the period from 1 December 2016 and ending on the 10th anniversary of the Listing Date.

**Rent:** The annual rent will be RMB291,720 for the first year, RMB344,760 for the second year and RMB371,280 for the third year and afterwards.

The rent is payable quarterly in advance.

**Utility expenses:** The monthly utility expenses of the New Cosbe Facility Premise I such as water and electricity charges are also borne by Cosbe. Such monthly expenses are first paid for and on behalf of Cosbe by Baoma, which is subsequently reimbursed by Cosbe to Baoma based on the actual amount of the monthly utility expenses incurred and paid.

**Renewal:** Cosbe may request Baoma to renew the lease by giving 90 days advance notice before the expiry of the lease, and Baoma shall not unreasonably refuse to renew the lease. If Baoma decides not to renew the lease, it must give Cosbe at least one year advance notice prior to the expiry of the lease.

If Baoma decides not to renew the lease, Baoma has undertaken to Cosbe that (i) it shall have an obligation to assist Cosbe in locating an alternative site for operation and to provide all reasonable assistance required for Cosbe’s relocation; and (ii) it shall compensate Cosbe for economic losses (including loss of revenue) and necessary relocation expenses as a result of the relocation; and (iii) it shall allow Cosbe to occupy and use the premises until Cosbe’s relocation is completed and the operation of Cosbe at the new premises has commenced.

**First right of refusal:** If Baoma decided to dispose of the premises, it shall give Cosbe one year advance notice. Cosbe shall have a first right of refusal to purchase the premises under the same conditions at the prevailing fair market price (or such amount to be determined by a jointly appointed independent third party valuer).

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## CONNECTED TRANSACTIONS

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Termination: Either party may terminate the lease by giving one year advance notice to the other party, or otherwise compensate the other party the rental of the corresponding year for the period short of the notice period.

For the two years ended 31 December 2016, the total annual rental paid by Cosbe under the Factory Tenancy Agreement 3 was nil and nil, respectively as the Factory Tenancy Agreement 3 was entered into on 28 November 2016 and one-month rent free period was provided. For the four months ended 30 April 2017, the total rental paid by Cosbe under the Factory Tenancy Agreement 3 was approximately HK\$119,000.

### *Factory Tenancy Agreement 4*

On 8 March 2017, Cosbe (as tenant) and Baoma (as landlord) entered into a tenancy agreement which is amended by a supplemental agreement dated 29 September 2017 (“**Factory Tenancy Agreement 4**”), pursuant to which Baoma agreed to lease and Cosbe agreed to take the factory premise situated at 1st to 4th Floors of North Building and West Building, No.1 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC (中國廣東省汕頭市大學路金平區疊金工業區三片區金浦路1號北面樓房一至四層及西面樓房一至四層廠房) (the “**New Cosbe Facility Premise II**”) with a gross floor area of 11,220 sq.m. as the factory premise for the New Cosbe Facility. Details of the key terms of the Factory Tenancy Agreement 4 are as follows:

Term: From 1 November 2017 to its 10th anniversary.

Rent: The annual rent will be RMB807,840 for the first year, RMB875,160 for the second year and RMB942,480 for the third year and afterwards.

The rent is payable quarterly in advance.

Utility expenses: The monthly utility expenses of the New Cosbe Facility Premise II such as water and electricity charges are also borne by Cosbe. Such monthly expenses are first paid for and on behalf of Cosbe by Baoma, which is subsequently reimbursed by Cosbe to Baoma based on the actual amount of the monthly utility expenses incurred and paid.



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## CONNECTED TRANSACTIONS

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**Renewal:** Cosbe may request Baoma to renew the lease by giving 90 days advance notice before the expiry of the lease, and Baoma shall not unreasonably refuse to renew the lease. If Baoma decides not to renew the lease, it must give Cosbe at least one year advance notice prior to the expiry of the lease.

If Baoma decides not to renew the lease, Baoma has undertaken to Cosbe that (i) it shall have an obligation to assist Cosbe in locating an alternative site for operation and to provide all reasonable assistance required for Cosbe's relocation; and (ii) it shall compensate Cosbe for economic losses (including loss of revenue) and necessary relocation expenses as a result of the relocation; and (iii) it shall allow Cosbe to occupy and use the premises until Cosbe's relocation is completed and the operation of Cosbe at the new premises has commenced.

**First right of refusal:** If Baoma decided to dispose of the premises, it shall give Cosbe one year advance notice. Cosbe shall have a first right of refusal to purchase the premises under the same conditions at the prevailing fair market price (or such amount to be determined by a jointly appointed independent third party valuer).

**Termination:** Either party may terminate the lease giving one year advance notice to the other party, or otherwise compensate the other party the rental of the corresponding year for the period short of the notice period.

As the Factory Tenancy Agreement 4 will take effect from 1 November 2017, there was no rental paid by Cosbe under the Factory Tenancy Agreement 4 during the Track Record Period.

### *Annual Caps for Factory Tenancy Agreement 3 and Factory Tenancy Agreement 4*

The respective annual rents payable under the Factory Tenancy Agreement 3 and the Factory Tenancy Agreement 4 were determined after arm's length negotiation between the parties thereto with reference to the then prevailing market rate of rent of local properties of similar size in proximity to the New Cosbe Facility Premise I and the New Cosbe Facility Premise II, respectively. No utility expenses were reimbursed by Cosbe to Baoma for the New Cosbe Facility Premise I and the New Cosbe Facility Premise II during the Track Record Period. As the Factory Tenancy Agreement 3 and the Factory Tenancy Agreement 4 relate to the same property, we have aggregated all rental amounts and utility expenses for the New Cosbe Facility Premise I and the New Cosbe Facility Premise II in calculating the proposed annual caps. The proposed annual caps for rental and utility expenses payable by Cosbe under the Factory Tenancy Agreement 3 and the Factory Tenancy Agreement 4 (the "**New Factory**

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## CONNECTED TRANSACTIONS

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**Tenancy Annual Caps**”) for each of the three years ending 31 December 2017, 2018 and 2019 are HK\$1.1 million, HK\$4.3 million and HK\$4.3 million, respectively. Our Directors confirmed that the New Factory Tenancy Annual Caps are determined after taking into account (i) historical amounts of utility expenses of Cosbe Facility Premise I and Cosbe Facility Premise II; (ii) the fixed annual rents payable under the Factory Tenancy Agreement 3 and the Factory Tenancy Agreement 4; and (iii) a buffer for increase in utility expenses and appreciation of RMB against HKD.

*Duration of Factory Tenancy Agreement 1, Factory Tenancy Agreement 2, Factory Tenancy Agreement 3 and Factory Tenancy Agreement 4 (collectively, the “**Factory Tenancy Agreements**”)*

The Cosbe Facility has been occupying the Cosbe Facility Premise I and the Cosbe Facility Premise II during the Track Record Period. Relocating the Cosbe Facility will incur relocation costs and lead to unnecessary business disruption. The premises under the Factory Tenancy Agreement 3 and the Factory Tenancy Agreement 4 for housing the New Cosbe Facility are located in proximity to the Cosbe Facility. Our Directors consider this allows the two facilities to share resources and makes it easier to centralise management. According to Roma Appraisals Limited, an independent property valuer, the rental payment terms under the respective Factory Tenancy Agreements reflect the prevailing market rates as at the respective dates thereof. Since the annual rental under each of the Factory Tenancy Agreements was arrived at after arm’s length negotiation and with reference to the prevailing market rates, our Directors (including our independent non-executive Directors) consider and the Sole Sponsor concurs that the terms of each of the Factory Tenancy Agreements, including the annual rental, are on normal commercial terms, fair and reasonable and is in our Company’s and our Shareholders’ interests as a whole.

Under the GEM Listing Rules, the Factory Tenancy Agreements should be for a duration no longer than three years except in special circumstances where the nature of the transaction requires the agreement to be of a longer period. According to Roma Appraisals Limited, an independent property valuer, the terms (including the duration) of each of the Factory Tenancy Agreements are fair and reasonable and are normal business practice. Accordingly, our Directors and the Sole Sponsor are of the view that it is in the interests of our Group for the Factory Tenancy Agreements to have a 10-year term with termination notice of one year as it will enable Cosbe to secure its factory premises for its long term operations at fair market price and to minimise the risk of unnecessary cost, time and interruption of business caused by relocation in the case of short term lease, and allow Cosbe sufficient time to plan for relocation should Baoma decided to terminate the leases prior to the expiry dates. As such, our Directors and the Sole Sponsor are of the view that the lease term of 10 years and the termination notice of one year are appropriate for the Factory Tenancy Agreements, which are normal commercial terms for similar long term lease agreements, so far as our Directors and the Sole Sponsor are aware.

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## CONNECTED TRANSACTIONS

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### *PRC Office Tenancy Agreement*

On 20 January 2017, Takbo (as tenant) and Baoma (as landlord) entered into a tenancy agreement (as supplemented on 20 February 2017) (“**PRC Office Tenancy Agreement**”), pursuant to which Baoma agreed to lease and Takbo agreed to take the factory premise situated at 2nd Floor of Block C, No.1 Jinpu Road, Phase III, Diejin Industrial Area, Jinping District, University Road, Shantou City, Guangdong Province, PRC (中國廣東省汕頭市大學路金平區疊金工業區三片區金浦路1號(C)幢二層廠房) with a gross floor area of 506.53 sq.m. for use as Takbo’s PRC representative office for a period of three years commencing on 1 February 2017 and expiring on 31 January 2020.

As the PRC Office Tenancy Agreement took effect since 1 February 2017, the total rental paid by Takbo under the PRC Office Tenancy Agreement for the four months ended 30 April 2017 was approximately HK\$10,000.

On 29 September 2017, Takbo (as tenant) and Baoma (as landlord) entered into a new tenancy agreement (“**New PRC Office Tenancy Agreement**”) for the same terms as the PRC Office Tenancy Agreement, for a period of three years effective from the Listing Date, which shall replace and supersede the PRC Office Tenancy Agreement, at an annual rental of RMB36,470 in the first year, RMB39,509 in the second year and RMB42,549 in the third year payable quarterly in advance. The New PRC Office Tenancy Agreement has no termination clause. The New PRC Office Tenancy Agreement can be renewed by Takbo giving six months prior written notice to Baoma before the expiry of the term.

The location under the PRC Office Tenancy Agreement meets the requirement of our Group. The reason for setting up the PRC representative office is to provide administrative support, conduct liaison works and manage relationship with our PRC suppliers. The annual rental payable under each of the PRC Office Tenancy Agreement and the New PRC Office Tenancy Agreement was arrived at after arm’s length negotiation and with reference to the prevailing market rate. In light of the above, our Directors (including our independent non-executive Directors) consider that the New PRC Office Tenancy Agreement is on normal commercial terms and is in our Company’s and our Shareholders’ interests as a whole.

The proposed annual caps for rental payable by Takbo under the New PRC Office Tenancy Agreement (the “**PRC Office Tenancy Annual Caps**”) for each of the three years ending 31 December 2017, 2018 and 2019 are HK\$42,000, HK\$53,000 and HK\$53,000, respectively. Our Directors confirmed that the PRC Office Tenancy Annual Caps are determined (i) based on the fixed annual rent payable under the New PRC Office Tenancy Agreement; and (ii) taking into account a buffer for appreciation of RMB against HKD.

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## CONNECTED TRANSACTIONS

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### *Aggregation of the New Hong Kong Office Tenancy Agreement, the New Residential Tenancy Agreement, the Factory Tenancy Agreements and the New PRC Office Tenancy Agreement*

Notwithstanding that the transactions contemplated under each of the New Hong Kong Office Tenancy Agreement, the New Residential Tenancy Agreement, the Factory Tenancy Agreement 1, the Factory Tenancy Agreement 2, the Factory Tenancy Agreement 3, the Factory Tenancy Agreement 4 and the New PRC Office Tenancy Agreement, when viewed as individual transactions under each individual agreement, fall under the de minimis transactions exemption under Rule 20.74 of the GEM Listing Rules, as the New Hong Kong Office Tenancy Agreement, the New Residential Tenancy Agreement, the Factory Tenancy Agreement 1, the Factory Tenancy Agreement 2, the Factory Tenancy Agreement 3, the Factory Tenancy Agreement 4 and the New PRC Office Tenancy Agreement (collectively, the “**Aggregated Tenancy Agreements**”) are entered into within a 12-month period and involve the rental of premises from the same connected person or parties associated with each other, pursuant to Rule 20.79 of the GEM Listing Rules, the transactions contemplated under the Aggregated Tenancy Agreements shall be aggregated and treated as if they were one transaction (“**Aggregated Transactions**”). The Aggregated Transactions are subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules.

#### **4. Purchase of beauty bags from Baoma**

During the Track Record Period, our Group purchased beauty bags from Baoma. On 29 September 2017, Takbo and Baoma entered into a purchase framework agreement (the “**Purchase Framework Agreement**”), pursuant to which Baoma agreed to sell and our Group agreed to purchase beauty bags for a period of three years commencing from the Listing Date. The Purchase Framework Agreement does not have a termination clause.

The annual amount of purchases from Baoma for the two years ended 31 December 2016 were approximately HK\$13.1 million and HK\$13.3 million, respectively. For the four months ended 30 April 2017, the amount of purchases from Baoma was approximately HK\$4.5 million. Such amounts were determined on an arm’s length basis between Takbo and Baoma having regards to the quality, quantity and delivery timeline of the products supplied. We engage Baoma as our supplier because of our long term relationship. Further, we are of the view that Baoma is relatively competitive in terms of the quality of products supplied (which is particularly demonstrated by Baoma being an approved supplier by our major customer), capacity and its ability to guarantee timely delivery. Pursuant to the Purchase Framework Agreement, the supply of beauty bags by Baoma to our Group must be on normal commercial terms and at a price determined at arm’s length negotiations based on prevailing market prices and no less favourable to our Group than offered to Independent Third Parties for the supply of same/similar products having regards to the quality, quantity and delivery timeline of the beauty bags supplied. Further, the Purchase Framework Agreement does not impose any purchase commitment on our Group. In light of the above, our

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## CONNECTED TRANSACTIONS

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Directors (including our independent non-executive Directors) confirmed that the Purchase Framework Agreement is on normal commercial terms and is fair and reasonable and in our Company's and our Shareholders' interests as a whole.

The proposed annual amount of purchases (the "**Purchase Annual Caps**") under the Purchase Framework Agreement for the three years ending 31 December 2017, 2018 and 2019 is HK\$13.5 million per year. Our Directors confirmed that the Purchase Annual Caps are determined after taking into account historical transaction amounts.

Pursuant to Chapter 20 of the GEM Listing Rules, the transactions contemplated under the Purchase Framework Agreement ("**Purchase Transactions**") constitute continuing connected transactions of our Company and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

### **REASON FOR THE WAIVER APPLICATION**

Pursuant to Rule 20.103 of the GEM Listing Rules, the Stock Exchange may consider granting a waiver from the announcement, circular and shareholders' approval requirements set out in Rules 20.33, 20.34 and 20.44 of the GEM Listing Rules in relation to the Aggregated Transactions and Purchase Transactions. Since the details of the Aggregated Transactions and the Purchase Transactions have been included in this prospectus, our Directors consider that strict compliance with the requirements set out in Rules 20.33, 20.34 and 20.44 of the GEM Listing Rules would add additional and unnecessary costs to our Company. Therefore, our Directors consider that the waiver from the announcement, circular and shareholders' approval requirements set out in Rules 20.33, 20.34 and 20.44 of the GEM Listing Rules in connection with the Aggregated Transactions and the Purchase Transactions is in the interests of our Group and our Shareholders as a whole.

Our Group will comply with the relevant requirements under Chapter 20 of the GEM Listing Rules, including the Hong Kong Office Tenancy Annual Caps, the Residential Tenancy Annual Caps, the Factory Tenancy Annual Caps, the New Factory Tenancy Annual Caps, the PRC Office Tenancy Annual Caps and the Purchase Annual Caps, and if the waiver from the Stock Exchange expires or any of the aforementioned annual caps are exceeded, or when either of the New Hong Kong Office Tenancy Agreement, the New Residential Tenancy Agreement, the Factory Tenancy Agreement 1, the Factory Tenancy Agreement 2, the Factory Tenancy Agreement 3, the Factory Tenancy Agreement 4, the New PRC Office Tenancy Agreement or the Purchase Framework Agreement is renewed or when there is a material change to the terms of either of the aforementioned agreements.

Having reviewed the terms of each of the New Hong Kong Office Tenancy Agreement, the New Residential Tenancy Agreement, the Factory Tenancy Agreement 1, the Factory Tenancy Agreement 2, the Factory Tenancy Agreement 3, the Factory Tenancy Agreement 4, the New PRC Office Tenancy Agreement and the Purchase Framework Agreement, the Sole Sponsor concurs with the view of our Directors (including our independent non-executive Directors) that the entering into of the Aggregated Transactions and the Purchase Transactions are in the ordinary and usual course of business of our Group, the terms of the Aggregated Tenancy Agreements and the Purchase

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## CONNECTED TRANSACTIONS

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Framework Agreement including the Hong Kong Office Tenancy Annual Caps, the Residential Tenancy Annual Caps, the Factory Tenancy Annual Caps, the New Factory Tenancy Annual Caps, the PRC Office Tenancy Annual Caps and the Purchase Annual Caps, are on normal commercial terms, and are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Save as disclosed in this section, our Directors currently do not expect that immediately following the Listing, there will be any other transaction which will constitute a continuing connected transaction of our Company under the GEM Listing Rules.

### **WAIVERS SOUGHT AND THE PROPOSED CONDITIONS RELATED THERETO**

Pursuant to Rule 20.103 of the GEM Listing Rules, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, waivers from strict compliance with the announcement, circular and shareholders' approval requirements set out in Rules 20.33, 20.34 and 20.44 of the GEM Listing Rules for the Aggregated Transactions and the Purchase Transactions, provided that the annual transaction amounts in respect of such continuing connected transactions do not exceed the respective annual caps. Our Company will comply with other applicable provisions set out in Chapter 20 of the GEM Listing Rules in relation to each respective continuing connected transaction of our Group. In the event of any further amendments to the GEM Listing Rules imposing more stringent requirements, our Company will take appropriate steps to ensure compliance with such requirements within a reasonable period of time.

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## SHARE CAPITAL

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### SHARE CAPITAL

The table as shown below assumes the Share Offer and the Capitalisation Issue has become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account any Shares which may be allotted and issued upon the exercise of the options which may be granted under the Share Option Scheme.

The authorised and issued share capital of our Company before and following the completion of the Capitalisation Issue and Share Offer is as follow:

HK\$

#### Authorised share capital:

<u>10,000,000,000</u>	Shares	<u>100,000,000</u>
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#### Shares in issue or to be issued, fully paid or credited as fully paid:

3	Shares in issue as at the date of this prospectus	0.03
299,999,997	Shares to be issued pursuant to the Capitalisation Issue	2,999,999.97
<u>100,000,000</u>	Shares to be issued pursuant to the Share Offer	<u>1,000,000</u>
<u>400,000,000</u>	Shares	<u>4,000,000</u>

### ASSUMPTIONS

The above table assumes that the Share Offer becomes unconditional and the issue of Shares pursuant to the Share Offer and the Capitalisation Issue are made. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

### MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, our Company must maintain the “minimum prescribed percentage” of 25% of the issued share capital of our Company in the hands of the public (as defined in the GEM Listing Rules).

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## SHARE CAPITAL

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### RANKING

The Shares issued under the Share Offer will be ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all Shares in issue or to be issued as mentioned in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of this prospectus save for the entitlement under the Capitalisation Issue.

### CIRCUMSTANCES WHERE MEETING OF THE COMPANY ARE REQUIRED

The circumstances under which general meeting and class meeting are required are provided in the Articles, details of which is set out in “Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — (e) Meetings of members” in Appendix III to this prospectus.

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in “Statutory and General Information — Share Option Scheme” in Appendix IV to this prospectus.

### GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in “Structure and Conditions of the Share Offer — Conditions of the Share Offer” being fulfilled, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by the Shareholders) shall not exceed:

- (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Share Offer and the Capitalisation Issue (not including Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme); and
- (b) the aggregate nominal value of the share capital of our Company repurchased (if any) pursuant to the authority granted to our Directors as referred to in “— General mandate to repurchase Shares”.

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or upon the exercise of any options which may be granted under the Share Option Scheme. This general mandate to issue Shares will remain in effect until:

- (a) the conclusion of our Company’s next annual general meeting;



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## SHARE CAPITAL

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- (b) the expiration of the period within which our Company's next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Articles; or
- (c) it is varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please refer to "Statutory and General Information — Further Information about our Company and its Subsidiaries — 3. Resolutions in writing of the sole Shareholder passed on 29 September 2017" in Appendix IV to this prospectus.

### **GENERAL MANDATE TO REPURCHASE SHARES**

Subject to the conditions set out in "Structure and Conditions of the Share Offer" being fulfilled, our Directors have been granted a general mandate to exercise all the powers of our Company to purchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal value of our Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (not including Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in "Statutory and General Information – Further information about our Company and its Subsidiaries — 6. Repurchase by our Company of its own securities" in Appendix IV to this prospectus.

The above mentioned general mandate to issue and repurchase Shares will remain in effect until:

- (a) the conclusion of the next annual general meeting of our Company;
- (b) at the expiration of the period within which the next annual general meeting of our Company is required by any applicable laws or the Articles to be held; or
- (c) when varied or revoked by an ordinary resolution of the Shareholders in general meeting;

whichever is the earliest.

For further details of these general mandates, please refer to "Statutory and General Information – Further information about our Company and its Subsidiaries — 3. Resolutions in writing of our sole Shareholder passed on 29 September 2017" and "Statutory and General Information — Further information about our Company and its subsidiaries — 6. Repurchase by our Company of its own securities" in Appendix IV to this prospectus.

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## FINANCIAL INFORMATION

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*You should read this section in conjunction with our audited combined financial information as at and for the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, including the Notes thereto, as set out in the Accountant's Report in Appendix I to this prospectus. The audited combined financial information has been prepared in accordance with HKFRSs. You should read the Accountant's Report included as Appendix I to this prospectus in its entirety and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those anticipated in the forward-looking statements. Factors that might cause future results to differ significantly from those anticipated in the forward-looking statements as a result of various factors, including those discussed in "Risk Factors" and elsewhere in this prospectus.*

### OVERVIEW

We principally (i) design, develop, manufacture and sell beauty products; and (ii) design, develop and sell beauty bags. Our Directors believe that we are a well-established beauty products manufacturer in the PRC as we have successfully operated such business for approximately 14 years.

Our beauty products, comprising colour cosmetics, toiletries and fragrances are manufactured on an OEM or ODM basis. Our beauty products are typically manufactured and sold to retailers and brand owners overseas. Our OEM business involves the manufacture and sale of products based on customers' specifications and guidelines. Our ODM business leverages on the capabilities of our design and research and development teams by creating designs in line with the current market trend, enabling our customers to enjoy our "one-stop service" in terms of design, development and production of quality and tailor-made products.

In respect of the design, development and sale of beauty bags, we provide solutions to our customers on market research and analysis, design and development and production management. We maintain such line of business to complement our main line of beauty products manufacturing business and to diversify the products and services we are able to offer to our customers. All of our beauty bags are produced by external manufacturers, two of which during the Track Record Period are connected persons of our Company.

During the Track Record Period, we have also sold beauty products and beauty bags under our own brands, namely "Pink Viva", "Secret Lace" and "Gorgeous Girl Forever", to Customer B (U.S.), being one of our top five customers during the Track Record Period.

Our revenue for each of the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017 were approximately HK\$170.8 million, HK\$165.1 million, HK\$25.4 million and HK\$24.0 million, respectively.

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## FINANCIAL INFORMATION

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Our net profit attributable to the owners of our Company for each of the two years ended 31 December 2016 were approximately HK\$12.9 million and HK\$13.7 million, respectively. For the four months ended 30 April 2016 and 2017, loss attributable to the owners of our Company were approximately HK\$0.4 million and HK\$9.3 million. Excluding the expenses incurred in connection with the Listing, loss attributable to the owners of the Company would be approximately HK\$0.3 million for the four months ended 30 April 2017.

### **BASIS OF PRESENTATION**

The combined statements of financial position as at 31 December 2015 and 2016 and the four months ended 30 April 2016 and 2017, and the combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of our Group for the Track Record Period as set out in the Accountant's Report included in Appendix I to this prospectus include the results of operations of the companies comprising our Group following the consummation of the Reorganisation, as if our Group in its current form had been in existence throughout the Track Record Period, or where a member of our Group was incorporated during the Track Record Period, since the date of establishment or incorporation of that member.

Immediately prior to and after the Reorganisation, the ultimate owners of and their respective interest in the our Group remain the same. Our Group conducted its operations through Takbo and Cosbe which are ultimately controlled by Mr. Or Naam, Ms. Chu and Ms. Chan and are the only operating entities of our Group. Our Company and the newly incorporated intermediate holding entities of our Group have not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The transactions as described in Note 1.2 to the Accountant's Report in Appendix I to this prospectus is merely a reorganisation of our Group with no change in management and the ultimate owners of such business. Accordingly, the combined financial information of the companies now comprising our Group is presented using the carrying values of our Group for all periods presented for the purpose of this report.

Intercompany transactions, balances, unrealised profits or losses on transactions between group companies are eliminated on combination.

### **MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS**

Our results of operations and financial condition have been and will continue to be affected by a number of factors, many of which may be beyond our control, including those factors set out in "Risk Factors" and those set out below:

#### **(1) Economy and consumer demand for our products in the U.S.**

Geographically, U.S. is our single largest major market during the Track Record Period. For each of the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, approximately 85.4%, 88.1%, 80.5% and 78.9% of our revenue, respectively, was derived from sales to U.S. As our business heavily relies on our export sales, any fluctuations

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in the global economy, in particular, the U.S., may adversely affect our profitability. Our export sales are generally subject to certain inherent risks, among others, changes and development in the local political, regulatory and business conditions, imposition of trade barriers, such as export requirements, tariffs, taxes, other export, restrictions and anti-dumping measures, which could affect the price competitiveness of our products, compliance with the requirements of applicable sanctions, anti-bribery and related laws and regulations, political tension arising from dispute between the PRC and countries where we sell our products, fluctuations in exchange rates of foreign currencies, and our ability to obtain, maintain or enforce intellectual property rights in jurisdictions where we sell our products. These uncertainties could have a material adverse effect on our business, results of operation and financial conditions, and affect our ability to remain profitable and achieve business growth.

### **(2) Product mix and customer mix**

We have a diverse product portfolio comprising a broad range of beauty products and ranges from lipsticks and eye shadows to fragrances and shower gels. We believe our diverse product range enables us to capitalise on changing market trends and consumer preferences in the U.S. Every year, we will generally provide proposals on our beauty products to our customers. Such proposals would include product and graphic designs, product mix and layout and quotation based on cost plus model for their consideration. An order will be awarded to the selected design/proposal by our customers. As our beauty products sold during the Track Record Period are mainly seasonal gift sets and standalone items targeted for holiday and festive seasons, they are typically one-off products and orders are generally not recurring in nature. The type and number of products purchased by our customers vary from year to year depending on, among others, the marketing plan and budgets of our customers of the relevant year. The mix of products in our portfolio which are accepted by our customers, and subsequently received purchase order will affect our financial performance as different products may have different selling prices and generate different gross profit margins depending on facts such as cost of raw materials or inventory, production costs, product pricing and marketing strategy.

During the Track Record Period, our financial performance has varied due to the different proposals accepted by our customers and may continue to vary as we develop new products to suit changing market trends and customer preferences.

### **(3) Cost of raw materials/manufacturing costs**

Raw materials and inventory costs (including packaging materials and component) are the primary component of our costs of sales. Raw materials and inventory costs comprised approximately 85.9%, 83.2%, 89.6% and 79.4% of our costs of sales for the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, respectively.

The price of raw materials, including packaging materials and component, are determined principally by market forces such as the relevant supply and demand of the raw material, as well as our bargaining power with our suppliers. During the Track Record Period, the majority

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of our major raw materials have been fairly stable and our major raw materials are commonly available from the market. We monitor supply and cost trends of these raw materials and take appropriate action to obtain the ingredients we need for production. We expect fluctuations in the cost of raw materials to continue to affect our margins.

All of the raw materials we procure, including packaging materials and component, are purchased from a number of suppliers to ensure adequate supply and efficient delivery to our production facility.

### **(4) Exchange rate**

The majority of our sales are made to overseas customers and therefore most of our revenue is denominated in US\$. However, we pay most of our costs based on the relevant local currency. For PRC operations, we incur and settle the costs of raw materials and inventory procured within the PRC, staff salaries, freight and transportation expenses, local tax payments and advertising and marketing cost, etc. in RMB. Given our reporting currency is in HKD, we are therefore susceptible to currency exchange rate fluctuations between the HKD and RMB. During the Track Record Period, the daily exchange rate of HKD to RMB fluctuated between HK\$1.00:RMB0.7880 and HK\$1.00:RMB0.8964.

As at 31 December 2015 and 2016, if RMB had strengthened/weakened by 13.7% with all other variables held constant, the post-tax profit for the respective years ended 31 December 2015 and 2016 would have been approximately HK\$120,000 and HK\$761,000 lower/higher, mainly as a result of foreign exchange losses/gains on revaluation of RMB denominated cash and cash equivalents, trade receivables, trade payables, other payables, amounts due to related parties and bank borrowings. As at 30 April 2017, if RMB had strengthened/weakened by 1.8% with all other variables held constant, the post-tax loss for the four months ended 30 April 2017 would have been approximately HK\$55,000 lower/higher, mainly as a result of foreign exchange losses/gains on revaluation of RMB denominated cash and cash equivalents, trade receivables, trade payables, other payables, amounts due to related parties and bank borrowings. For details on foreign exchange risk faced by our Group, please refer to “Risk Factors — Risks relating to our business”.

We have not entered into any agreement to hedge our exchange rate exposure relating to RMB and there is no assurance that we will be able to enter into such agreement on commercially viable terms in the future.

### **(5) Taxation**

Our profitability and financial performance are affected by applicable tax rates and the availability of preferential tax treatment. Pursuant to the rules and regulations of the Cayman Islands and the BVI, our Group is not subject to any income tax in the Cayman Islands and the BVI. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for each reporting period during the Track Record Period. Our subsidiary in the PRC is subject to the PRC statutory income tax rate of 25%.

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### **(6) Seasonality**

Our sales are subject to seasonal fluctuations. Historically, as our beauty products are mostly sold in seasonal gift sets or standalone items, we have experienced higher sales of beauty products in the third quarter each year, which is primarily due to our customers preparing for western festivals that take place in the fourth quarter of the year such as Thanksgiving and Christmas, as the sales demand from the public on gift sets of beauty products are higher during such festive seasons. In respect of beauty bags, we generally experienced higher sales in the second and third quarters each year, primarily due to our customers preparing for the aforementioned festivals and also the Back-to-School in September.

### **SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

Note 2 to the Accountant's Report in Appendix I to this prospectus sets forth certain significant accounting policies, which are important for understanding our financial condition and results of operations.

Note 4 to the Accountant's Report in Appendix I to this prospectus sets forth certain critical accounting estimates and judgments, which are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ under different assumptions and conditions.

### **CRITICAL ACCOUNTING POLICIES**

We adopt accounting policies and make estimates that our Directors believe are most appropriate in the circumstances for the purpose of giving a true and fair view of our results and financial position. In each case, the determination of these items requires management judgements based on information and financial data that may change in future periods. When reviewing our combined financial information, you should consider (i) our selection of critical accounting policies; (ii) the judgement and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We believe the most complex and sensitive judgements, because of their significance to our results of operations and financial condition, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results in these areas could differ from our estimates. Critical accounting policies and estimates that are significant to the preparation of our combined financial information and important for an understanding of our financial position and results of operation are described below:

#### **Revenue recognition**

Our Group designs, develops, manufactures and sells beauty products on OEM and ODM basis and designs, develops and sells beauty bags. Our Group's products are manufactured in China and are then shipped to our customers based on terms as agreed with our customers, i.e. EXW or

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FCA terms for PRC customers and FOB or LDP terms for overseas customers. For the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, we recognised revenue of approximately HK\$170.8 million, HK\$165.1 million, HK\$25.4 million and HK\$24.0 million, respectively. Revenue from the sale of our products is recognised upon transfer of the risks and rewards associated with ownership of the relevant goods. For details regarding our accounting policy relating to our revenue recognition, see Note 2.21 to the Accountant's Report in Appendix I to this prospectus.

### **Impairment of receivables**

Our Group makes provision for impairment in receivables based on an assessment of the recoverability of receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition. Provisions are made where events or changes in circumstances indicate that the receivables may not be collectible. The identification of impairment in receivables requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of the receivables and impairment is recognised in the period in which such estimate has been changed.

### **Current and deferred taxes**

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations during the ordinary course of our Group's business for which the ultimate tax treatment is subject to judgement. If our Group considers it probable that these judgements will result in different tax positions, the most likely amounts of the outcome will be estimated and adjustments to the income tax expense and income tax liabilities will be made accordingly.

Deferred income tax assets relating to certain deductible temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been changed.

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### SELECTED HISTORICAL COMBINED FINANCIAL INFORMATION

The selected financial information set out below is extracted from the Accountant's Report set out in Appendix I to this prospectus and should be read in conjunction with the Accountant's Report and the operating data included elsewhere in this prospectus.

The follow table presents our combined income statements for the Track Record Period:

#### Combined Income Statements

	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i>
<b>Revenue</b>	170,807	165,098	25,397	24,030
Cost of sales	<u>(119,583)</u>	<u>(104,698)</u>	<u>(15,925)</u>	<u>(14,822)</u>
Gross profit	51,224	60,400	9,472	9,208
Other income	—	234	125	10
Other gains, net	1,828	1,191	91	231
Administrative expenses	(23,679)	(29,475)	(7,367)	(16,553)
Selling expenses	<u>(13,302)</u>	<u>(15,077)</u>	<u>(2,705)</u>	<u>(2,258)</u>
<b>Operating profit/(loss)</b>	16,071	17,273	(384)	(9,362)
Finance income	39	68	33	23
Finance costs	<u>(298)</u>	<u>(211)</u>	<u>(85)</u>	<u>(40)</u>
Finance costs, net	(259)	(143)	(52)	(17)
<b>Profit/(loss) before income tax</b>	15,812	17,130	(436)	(9,379)
Income tax (expense)/credit	<u>(2,929)</u>	<u>(3,470)</u>	<u>(8)</u>	<u>121</u>
<b>Profit/(loss) for the year/ period attributable to owners of our Company</b>	<u>12,883</u>	<u>13,660</u>	<u>(444)</u>	<u>(9,258)</u>
<i>Non-HKFRSs information</i>				
Profit/(loss) for the year/period attributable to owners of our Company (excluding Listing expenses)	12,883	16,077	(444)	(290)



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### Descriptions of selected income statement line items

#### Revenue

Our revenue is mainly derived from design, development, manufacture and sale of beauty products, and design, development and sale of beauty bags. The following table sets out our quarterly revenue by product category for the two years ended 31 December 2016 and revenue by product category for the four months ended 30 April 2016 and 2017:

	Revenue												Four months ended	
	Year ended 31 December											30 April		
	2015					2016						2016	2017	
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total			HK\$'000	HK\$'000
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	%	(Unaudited)		
<b>Beauty products</b>														
Colour cosmetics	11,630	7,567	58,859	7,367	85,423	50.0	7,103	2,814	62,404	14,462	86,783	52.6	7,984	9,264
Fragrances	1,934	2,021	2,942	3,295	10,192	6.0	2,235	2,003	—	2,566	6,804	4.1	2,235	2,331
Toiletries	107	92	11,020	567	11,786	6.9	1,998	7,793	10,072	2,223	22,086	13.4	2,224	2,094
Sub-total for beauty products	13,671	9,680	72,821	11,229	107,401	62.9	11,336	12,610	72,476	19,251	115,673	70.1	12,443	13,689
<b>Beauty bags</b>	14,505	21,475	15,927	11,499	63,406	37.1	9,314	18,470	19,742	1,899	49,425	29.9	12,954	10,341
<b>Total</b>	28,176	31,155	88,748	22,728	170,807	100.0	20,650	31,080	92,218	21,150	165,098	100.0	25,397	24,030

Our total revenue was approximately HK\$170.8 million, HK\$165.1 million, HK\$25.4 million and HK\$24.0 million for the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, respectively. Revenue from the sale of beauty products increased by approximately 7.7% from approximately HK\$107.4 million for the year ended 31 December 2015 to approximately HK\$115.7 million for the year ended 31 December 2016 despite the total volume of beauty products sold slightly decreased from approximately 10.4 million units in the previous year to approximately 10.0 million units, primarily as a result of selling more beauty products with higher average selling price as a result of our Customer A (our largest customer in 2016 and which did not place orders with us in 2015) placing beauty products orders (which primarily consist of colour cosmetics gift sets) in 2016 with average selling price higher than that of our average selling price in HKD for the year ended 31 December 2015. Customer A contributed approximately 22.3% of our revenue for the year ended 31 December 2016 while it did not place any orders with us in 2015. Revenue from the sale of beauty products increased by approximately 10.0% from approximately HK\$12.4 million for the four months ended 30 April 2016 to approximately HK\$13.7 million for the four months ended 30 April 2017 despite the total volume of beauty products sold decreased from approximately 2.4 million units for the four months ended 30 April 2016 to approximately 2.2 million units for the four months ended 30 April 2017, primarily as a result of the change in product mix as demanded by our customers with higher average selling prices and our sales' attempt to select orders with higher average selling prices given the low level

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of efficiency and precision of the machineries of the Cosbe Facility which limits the production volume, especially for non-seasonal standalone beauty products which have higher quality requirements.

Revenue from the sale of beauty bags decreased by approximately 22.0% from approximately HK\$63.4 million for the year ended 31 December 2015 to approximately HK\$49.4 million for the year ended 31 December 2016; and decreased by approximately 20.2% from approximately HK\$13.0 million for the four months ended 30 April 2016 to approximately HK\$10.3 million for the four months ended 30 April 2017, primarily as a result of the shifting of management's sales focus to beauty products (particularly non-seasonal standalone beauty products), while such strategy did not result in instant corresponding increase in revenue from sales of beauty products as our Group requires time to solicit purchase orders from existing and new customers and develop the market. Please refer to "Business — Sales and marketing — Customers" for the reasons of the shifting of management's sales focus from beauty bags to beauty products (particularly non-seasonal standalone beauty products).

Going forward, our Directors believe that demand for our beauty products from overseas customers will remain stable. With our close business relationships with them and with our increasing focus on beauty products (particularly non-seasonal standalone beauty products), we hope to translate this to a revenue growth, increased market share and better financial performance. For further details of the business strategies, please refer to "Future Plans and Use of Proceeds — Business strategies and future plans".

The following table sets out a breakdown of the revenue generated from the sale of our beauty products by mode of operation for the Track Record Period:

	Year ended 31 December				Four months ended 30 April			
	2015		2016		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
					(Unaudited)			
ODM (Note)	30,073	28.0	50,746	43.9	—	—	1,322	9.7
OEM	77,328	72.0	64,927	56.1	12,443	100.0	12,367	90.3
<b>Total</b>	<u>107,401</u>	<u>100.0</u>	<u>115,673</u>	<u>100.0</u>	<u>12,443</u>	<u>100.0</u>	<u>13,689</u>	<u>100.0</u>

*Note:* Revenue from our ODM business also includes revenue generated from the sale of our products under our own brands (as disclosed in "Business — Business model") of approximately HK\$13.0 million, HK\$13.5 million, nil and nil respectively, for the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, and accounted for approximately 7.6%, 8.2%, nil and nil of our total revenue, during the respective periods.

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The following table sets out the revenue generated from the sale of our beauty products by product type for the Track Record Period:

	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Unaudited)	
Non-seasonal standalone beauty products	36,515	26,842	9,619	12,367
Seasonal standalone beauty products	110	—	—	—
Gift sets ( <i>Note</i> )	70,776	88,831	2,824	1,322
<b>Total</b>	<b>107,401</b>	<b>115,673</b>	<b>12,443</b>	<b>13,689</b>

*Note:* Gift sets represent seasonal beauty products gift sets.

During the Track Record Period, we generated over 78% of our revenue from customers in U.S. and our sales regions increased from eight countries for the year ended 31 December 2015 to 10 countries for the year ended 31 December 2016. For the four months ended 30 April 2016, we sold to six countries as compared to five countries for the four months ended 30 April 2017. The following table shows a breakdown of our revenue by sales region for the Track Record Period:

	Year ended 31 December				Four months ended 30 April			
	2015		2016		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	(Unaudited)							
U.S.	145,939	85.4	145,507	88.1	20,451	80.5	18,951	78.9
PRC	6,291	3.7	6,047	3.7	1,085	4.3	1,802	7.5
UAE	10,529	6.2	3,377	2.0	1,644	6.5	3,009	12.5
United Kingdom	5,283	3.1	5,066	3.1	1,130	4.4	199	0.8
Other countries ( <i>Note</i> )	2,765	1.6	5,101	3.1	1,087	4.3	69	0.3
<b>Total</b>	<b>170,807</b>	<b>100.0</b>	<b>165,098</b>	<b>100.0</b>	<b>25,397</b>	<b>100.0</b>	<b>24,030</b>	<b>100.0</b>

*Note:* As far as the two years ended 31 December 2016 are concerned, other countries mainly include Germany, Canada, Sri Lanka and Fiji. As far as the four months ended 30 April 2016 and 2017 are concerned, other countries comprise Germany and Fiji.

The following table sets out our range of unit selling price by product category for the Track Record Period:

	Range of unit selling price											
	Year ended 31 December						Four months ended 30 April					
	2015			2016			2016			2017		
	Low	Median	High	Low	Median	High	Low	Median	High	Low	Median	High
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Beauty products</b>												
Colour cosmetics	0.4	14.7	194.7	1.1	37.0	96.9	1.4	6.8	57.4	1.4	10.1	199.3
Fragrances	5.1	11.3	17.8	8.3	10.7	30.0	8.3	10.2	12.9	2.3	10.7	20.1
Toiletries	0.5	15.6	35.7	0.1	15.1	36.8	0.1	15.2	15.2	0.8	2.1	15.9
<b>Beauty bags</b>	1.7	16.0	173.6	1.6	13.1	81.9	1.6	12.8	76.3	0.5	32.6	110.1

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The following table sets out our average selling price by product category for the Track Record Period:

	Average selling price			
	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Beauty products</b>				
Colour cosmetics	10.2	18.0	6.2	10.1
Fragrances	11.2	11.7	10.2	10.3
Toiletries	10.6	4.8	2.4	2.0
<b>Beauty bags</b>	10.6	10.1	7.9	13.0

The following table sets out our average selling price of our beauty products by product type for the Track Record Period:

	Average selling price			
	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Standalone beauty products <i>(Note 1)</i>	6.1	4.0	4.3	5.7
Gift sets <i>(Note 2)</i>	16.1	27.0	13.0	70.0

*Notes:*

1. Standalone beauty products comprise seasonal and non-seasonal standalone beauty products.
2. Gift sets represent seasonal beauty products gift sets.

The following table sets out our average selling price of our beauty products by mode of operation for the Track Record Period:

	Average selling price			
	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
ODM	15.3	43.5	—	70.0
OEM	9.1	7.3	5.1	5.7

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The following table sets out our quarterly sales volume by product category for the two years ended 31 December 2016 and sales volume by product category for the four months ended 30 April 2016 and 2017:

	Sales volume											
	Year ended 31 December										Four months ended 30 April	
	2015					2016					2016	2017
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total		
<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>Units</i>	<i>Units</i>
'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
<b>Beauty products</b>												
Colour cosmetics	1,600	1,271	4,677	849	8,397	1,174	429	2,331	879	4,813	1,281	921
Fragrances	160	167	261	323	911	220	141	—	222	583	220	227
Toiletries	41	88	710	275	1,113	647	1,310	1,654	975	4,586	937	1,031
Total for beauty products	1,801	1,526	5,648	1,447	10,421	2,041	1,880	3,985	2,076	9,982	2,438	2,179
<b>Beauty bags</b>	1,113	3,196	1,122	552	5,983	1,280	1,969	1,536	128	4,913	1,649	793

The following table sets out the sales volume of our beauty products by product type for the Track Record Period:

	Sales volume			
	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	<i>Units</i> '000	<i>Units</i> '000	<i>Units</i> '000	<i>Units</i> '000
Standalone beauty products ( <i>Note 1</i> )	6,019	6,689	2,221	2,160
Gift sets ( <i>Note 2</i> )	4,402	3,293	217	19
<b>Total</b>	<b>10,421</b>	<b>9,982</b>	<b>2,438</b>	<b>2,179</b>

*Notes:*

1. Standalone beauty products comprise seasonal and non-seasonal standalone beauty products.
2. Gift sets represent seasonal beauty products gift sets.

The following table sets out the sales volume of our beauty products by mode of operation for the Track Record Period:

	Sales volume			
	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	<i>Units</i> '000	<i>Units</i> '000	<i>Units</i> '000	<i>Units</i> '000
ODM	1,964	1,167	—	19
OEM	8,457	8,815	2,438	2,160
<b>Total</b>	<b>10,421</b>	<b>9,982</b>	<b>2,438</b>	<b>2,179</b>

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Every year, our customers generally will invite us to provide proposals on their beauty products. Our proposal generally includes, among others, product and graphic designs, product mix and layout and quotation based on cost plus model. An order will be awarded to the selected design/proposal by our customer. The selling prices of our beauty products primarily depend on the quantity ordered, raw materials used, production cost with an expected margin of our Group. For our beauty bags which are sourced from external manufacturers, we sell these products to our customers at prices that are a markup on our costs of purchases. As set out above, the range of unit selling price of our beauty products has decreased from approximately HK\$0.4–HK\$194.7 for the year ended 31 December 2015 to approximately HK\$0.1–HK\$96.9 for the year ended 31 December 2016. Such change was mainly due to the change in product mix of the purchase orders from our customers. Notwithstanding, the median unit selling price of colour cosmetics increased for the year ended 31 December 2016 as compared to the year ended 31 December 2015, while that of fragrances and toiletries generally remained stable during the Track Record Period. The range of unit selling price of our beauty products widened from approximately HK\$0.1–HK\$57.4 for the four months ended 30 April 2016 to approximately HK\$0.8–HK\$199.3 for the four months ended 30 April 2017. Such change was mainly a result of the change in product mix of the purchase orders from our customers. Notwithstanding, the average selling price of colour cosmetics increased for the four months ended 30 April 2017 as compared to the four months ended 30 April 2016, while the average selling price of fragrances and toiletries generally remained stable.

For the sale of beauty bags, the range of unit selling price narrowed from approximately HK\$1.7–HK\$173.6 for the year ended 31 December 2015 to approximately HK\$1.6–HK\$81.9 for the year ended 31 December 2016. The lower end of our range of unit selling price of our beauty bags decreased from approximately HK\$1.6 for the four months ended 30 April 2016 to approximately HK\$0.5 for the four months ended 30 April 2017, and the higher end increased from approximately HK\$76.3 for the four months ended 30 April 2016 to approximately HK\$110.1 for the four months ended 30 April 2017. During the Track Record Period, we procured and sourced beauty bags for our customers, the change in the range of average unit selling price mainly reflected the change in demand and style of beauty bags requested by our customers.

### *Cost of sales*

Cost of sales primarily comprises (i) raw materials and inventory costs and (ii) direct labour costs.

	<u>Year ended 31 December</u>				<u>Four months ended 30 April</u>			
	<u>2015</u>		<u>2016</u>		<u>2016</u>		<u>2017</u>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	(Unaudited)							
<b>Cost of sales</b>								
Beauty products	73,274	61.3	73,761	70.5	7,749	48.7	7,985	53.9
Beauty bags	46,309	38.7	30,937	29.5	8,176	51.3	6,837	46.1
<b>Total</b>	<u>119,583</u>	<u>100.0</u>	<u>104,698</u>	<u>100.0</u>	<u>15,925</u>	<u>100.0</u>	<u>14,822</u>	<u>100.0</u>

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For the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, our cost of sales was approximately HK\$119.6 million, HK\$104.7 million, HK\$15.9 million and HK\$14.8 million, respectively. The cost of beauty bags sold by our Group for the two years ended 31 December 2016 was approximately HK\$46.3 million and HK\$30.9 million, respectively and represented approximately 38.7% and 29.5% of our total cost of sales. The decrease in the cost of sales of beauty bags of approximately 33.3% was mainly in line with the 22.0% decrease in sales of our beauty bags and 17.9% decrease in the units of beauty bags sold and a result of the RMB depreciation. The cost of beauty bags sold by our Group for the four months ended 30 April 2016 and 2017 was approximately HK\$8.2 million and HK\$6.8 million, respectively, and represented approximately 51.3% and 46.1% of our total costs of sales. The decrease in cost of sales of beauty bags of approximately 16.4% was mainly in line with the 20.2% decrease in sales of our beauty bags.

The table below sets out a breakdown of our cost of sales by nature of expenses in absolute amounts and as percentage of total cost of sales for the periods indicated:

	As at 31 December				Four months ended 30 April			
	2015		2016		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)							
Raw materials and inventory costs	102,751	85.9	87,157	83.2	14,268	89.6	11,768	79.4
Direct labour costs	9,554	8.0	9,564	9.1	748	4.7	1,240	8.4
Quality control fees	1,085	0.9	848	0.8	193	1.2	294	2.0
Others (Note)	6,193	5.2	7,129	6.9	716	4.5	1,520	10.2
<b>Total</b>	<b>119,583</b>	<b>100.0</b>	<b>104,698</b>	<b>100.0</b>	<b>15,925</b>	<b>100.0</b>	<b>14,822</b>	<b>100.0</b>

*Note:* Others mainly include net VAT charges for foreign sales, repair and maintenance costs, consumables, rental expenses and sewage charges.

Raw materials and inventory costs was the major component of our cost of sales, which accounted for approximately 85.9%, 83.2%, 89.6% and 79.4% of our total cost of sales for the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017. Raw materials consumed included raw materials used in the production of our beauty products, including but not limited to packaging material, chemicals, and components such as make up brushes, and also bags which are produced by external manufacturers and resold by our Group as beauty bags and the work in progress and finished goods of beauty products. The decrease in our raw materials and inventory costs for the year ended 31 December 2016 as compared to the year ended 31 December 2015 was in line with the lower units of goods sold as well as a result of the RMB depreciation against HKD of approximately 6.6% in 2016. Our raw materials and inventory costs amounted to approximately HK\$14.3 million and HK\$11.8 million, respectively, representing approximately 89.6% and 79.4% of our total cost of sales for the four months ended 30 April 2016 and 2017, respectively. The decrease in our raw materials and inventory costs was mainly in line with the decrease in the units of goods sold.

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Direct labour costs, which comprise wages, salaries, service costs and benefits for personnel directly involved in our production facility was the second largest component of our cost of sales, accounted for approximately 8.0%, 9.1%, 4.7% and 8.4% of our total cost of sales for the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, respectively. The direct labour cost remained relatively stable for the two years ended 31 December 2016. The direct labour cost increased by approximately 65.8% from approximately HK\$0.7 million for the four months ended 30 April 2016 to approximately HK\$1.2 million for the four months ended 30 April 2017, primarily as a result of hiring more production staff for monitoring the production process and maintaining the machineries to compensate for the low level of efficiency and precision of old machineries and preparing for the commencement of commercial production at the New Cosbe Facility. During the Track Record Period, the beauty bags that we sold were manufactured by external manufacturers. The fees charged by our external manufacturers were primarily based on, among other things, the price, quantity and quality of raw materials required and technical complexity of the product to be manufactured.

Based on our best estimates, for illustrative purpose only, the table below shows the sensitivity of our profit before tax during the Track Record Period with regard to certain possible changes in the cost of raw materials and direct labour costs during the same period, assuming all other variables remain constant:

	Year ended 31 December					Four months ended 30 April			
	2015		2016			2016		2017	
	Increase/ (decrease) in percentage	(Decrease)/ increase in profit before tax	(Decrease)/ increase in profit after tax	(Decrease)/ increase in profit before tax	(Decrease)/ increase in profit after tax	(Increase)/ decrease in loss before tax	(Increase)/ decrease in loss after tax	(Increase)/ decrease in loss before tax	(Increase)/ decrease in loss after tax
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
									(Unaudited)
Cost of raw materials	5%	(5,138)	(4,186)	(4,358)	(3,475)	(713)	(727)	(588)	(580)
	(5%)	5,138	4,186	4,358	3,475	713	727	588	580
	10%	(10,275)	(8,372)	(8,716)	(6,950)	(1,427)	(1,453)	(1,177)	(1,162)
	(10%)	10,275	8,372	8,716	6,950	1,427	1,453	1,177	1,162
Direct labour costs	5%	(478)	(389)	(478)	(381)	(37)	(38)	(62)	(61)
	(5%)	478	389	478	381	37	38	62	61
	10%	(955)	(778)	(956)	(762)	(75)	(76)	(124)	(122)
	(10%)	955	778	956	762	75	76	124	122

Please refer to “Risk Factors — Risks relating to our business” for further information on the above factors and other factors that may affect our revenue.



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### *Gross profit and gross profit margin*

Our gross profit was approximately HK\$51.2 million, HK\$60.4 million, HK\$9.5 million and HK\$9.2 million for the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, respectively. The table below sets out our gross profit and gross profit margin by product category during the Track Record Period:

	Year ended 31 December				Four months ended 30 April			
	2015		2016		2016		2017	
	Gross Profit	Gross Profit margin	Gross Profit	Gross Profit margin	Gross Profit	Gross Profit margin	Gross Profit	Gross Profit margin
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	(Unaudited)							
<b>Beauty products</b>								
Colour cosmetics	30,137	35.3	33,778	38.9	3,420	42.8	4,269	46.1
Fragrances	1,926	18.9	1,478	21.7	521	23.3	636	27.3
Toiletries	2,064	17.5	6,656	30.1	753	33.9	799	38.2
<b>Sub-total for beauty products</b>	34,127	31.8	41,912	36.2	4,694	37.7	5,704	41.7
<b>Beauty bags</b>	17,097	27.0	18,488	37.4	4,778	36.9	3,504	33.9
<b>Total/overall</b>	<u>51,224</u>	30.0	<u>60,400</u>	36.6	<u>9,472</u>	37.3	<u>9,208</u>	38.3

During the Track Record Period, a substantial amount of our revenue was derived from sales to overseas customers and such sales were denominated in US\$ whereas our cost of sales were primarily denominated in RMB. Given our reporting currency is in HKD, the gross profit margins of our sales of beauty products and beauty bags increased by approximately 4.4 percentage points and 10.4 percentage points for the year ended 31 December 2016, respectively which were mainly attributable to the HKD appreciation against RMB from HK\$1.00:RMB0.8391 as at 1 January 2016 to HK\$1.00:RMB0.8945 as at 31 December 2016, representing an appreciation of approximately 6.6%. The gross profit margin of our sales of beauty products increased by approximately 4.0 percentage points for the four months ended 30 April 2017 as compared to that of the four months ended 30 April 2016, which was mainly due to the selling of more non-seasonal standalone beauty products with higher gross profit margin. The gross profit margin of our sales of beauty bags decreased slightly for the four months ended 30 April 2017 which mainly reflected the change in demand and style of beauty bags requested from our customers.

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The following table sets out the gross profit and gross profit margin of our sale of beauty products by mode of operation for the Track Record Period:

	Year ended 31 December				Four months ended 30 April			
	2015		2016		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)							
ODM	10,391	34.6	19,751	38.9	—	—	609	46.1
OEM	23,736	30.7	22,160	34.1	4,694	37.7	5,095	41.2

The gross profit margins of our ODM business were higher than that of our OEM business during the Track Record Period mainly attributable to higher profit margin charged for our product design and development value-added services in relation to ODM. Our ODM and OEM gross profit margins increased by approximately 4.3 percentage points and 3.4 percentage points, respectively for the year ended 31 December 2016, which was mainly attributable to the combined effect of (i) the change in product mix of the purchase orders from our customers; and (ii) the appreciation of the HKD against RMB. Our OEM gross profit margin increased by 3.5 percentage points for the four months ended 30 April 2017, which was mainly attributable to the combined effect of (i) the change in product mix of the purchase orders from our customers; and (ii) the appreciation of HKD against RMB.

The following table sets out our gross profit and gross profit margin of sale of our beauty products by product type for the Track Record Period:

	Year ended 31 December				Four months ended 30 April			
	2015		2016		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)							
Non-seasonal standalone beauty products	14,006	38.4	13,340	49.7	3,794	39.5	5,299	42.8
Seasonal standalone beauty products	39	35.5	—	—	—	—	—	—
Gift sets (Note)	20,082	28.4	28,572	32.2	900	31.9	405	30.6
<b>Total/overall</b>	<u>34,127</u>	31.8	<u>41,912</u>	36.2	<u>4,694</u>	37.7	<u>5,704</u>	41.7

Note: Gift sets represent seasonal beauty products gift sets.

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The gross profit margin for our non-seasonal standalone beauty products increased from approximately 38.4% to 49.7% or approximately 11.3 percentage points. The increase in gross profit margin was mainly a result of a change in product mix of non-seasonal standalone beauty products purchase orders from our customers and the effect of RMB depreciation against HKD of approximately 6.6% in 2016. The gross profit margin for our non-seasonal standalone beauty products for the four months ended 30 April 2017 increased to approximately 42.8% from 39.5% or approximately 3.3 percentage points for the four months ended 30 April 2016. The reason for the increase was primarily a result of a change in product mix of non-seasonal standalone beauty products purchase orders from our customers and the effect of RMB depreciation against HKD.

The gross profit margin for our gift sets increased from approximately 28.4% to 32.2% or approximately 3.8 percentage points. The increase in gross profit margin was primarily a result of change in product mix of gift sets purchase orders from our customers and the effect of RMB depreciation against HKD of approximately 6.6% in 2016. The gross profit margin for our gift sets for the four months ended 30 April 2017 remained relatively stable as compared to that for the four months ended 30 April 2016.

As disclosed in “Future Plans and Use of Proceeds — Business strategies and future plans”, we intend to develop and sell more non-seasonal standalone beauty products going forward. Our Directors expect that any impact on such shift of focus on our Group’s overall profit margin going forward would be positive, as the gross profit margin for non-seasonal standalone beauty products was higher than the respective gross profit margins for seasonal standalone beauty products and gift sets during the Track Record Period.

### *Other gains, net*

Our other income for the Track Record Period, mainly consisted of (i) net exchange gains; and (ii) net gain or loss on disposal of property, plant and equipment. The following table sets out the breakdown of our other gains, net for the Track Record Period:

	<u>Year ended 31 December</u>		<u>Four months ended 30 April</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Unaudited)	
Exchange gain, net	1,835	1,103	44	231
(Loss)/gain on disposal of property, plant and equipment	(7)	41	—	—
Others	<u>—</u>	<u>47</u>	<u>47</u>	<u>—</u>
<b>Total</b>	<u><u>1,828</u></u>	<u><u>1,191</u></u>	<u><u>91</u></u>	<u><u>231</u></u>

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The net exchange gains during the Track Record Period was mainly due to the following items:

- (i) some of the accounts payable of Takbo are denominated in RMB, therefore a realised exchange gain arose from the settlement of accounts payable as less HKD was required to settle the same accounts payable given the depreciation of RMB against HKD;
- (ii) Cosbe's accounts receivable from Takbo are denominated in USD, therefore an unrealised exchange gain arose in the accounts of Cosbe which is denominated in RMB from the translation of those accounts receivable from USD to RMB according to the exchange rate at the year/period-end. Given the same accounts receivable, more RMB will be received due to the depreciation of RMB; and
- (iii) when Cosbe received money from Takbo for the settlement of accounts receivable, realised exchange gain arose as more RMB was translated from the same amount of accounts receivable which are denominated in USD as the RMB was depreciating against USD during the Track Record Period.

### *Administrative expenses*

Our administrative expenses primarily consist of (i) management and staff salaries and benefits; (ii) rental of premises and utility expenses; (iii) entertainment expenses; (iv) depreciation and amortisation of property, plant and equipment and intangible assets; and (v) professional fees and Listing fees.

The following table sets out a breakdown of our administrative expenses for the Track Record Period:

	Year ended 31 December				Four months ended 30 April			
	2015		2016		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	<b>(Unaudited)</b>							
Management and staff salaries and benefits	11,167	47.2	15,567	52.8	3,388	46.0	3,986	24.0
Manpower service costs	3,424	14.5	2,747	9.3	1,017	13.8	981	5.9
Expenses incurred in connection with the Listing	—	—	2,417	8.2	—	—	8,968	54.2
Entertainment	1,362	5.8	1,627	5.5	832	11.3	342	2.1
Rent, rates and management fee	1,687	7.1	1,504	5.1	529	7.2	364	2.2
Amortisation and depreciation	1,092	4.6	988	3.4	326	4.4	194	1.2
Postage and courier	751	3.2	789	2.7	265	3.6	308	1.9
Motor vehicles expenses	737	3.1	734	2.5	247	3.4	251	1.5
Bank charges	381	1.6	318	1.1	57	0.8	32	0.1
Utilities	335	1.4	338	1.1	71	1.0	42	0.3
Auditors' remuneration	265	1.1	324	1.1	83	1.1	81	0.5
Legal and professional fees	241	1.0	543	1.8	63	0.8	457	2.8
Others ( <i>Note</i> )	2,237	9.4	1,579	5.4	489	6.6	547	3.3
<b>Total</b>	23,679	100.0	29,475	100.0	7,367	100.0	16,553	100.0

*Note:* Others mainly include office supplies, stationery and repair expenses.

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Our administrative expenses increased by approximately HK\$5.8 million or approximately 24.5% from approximately HK\$23.7 million for the year ended 31 December 2015 to approximately HK\$29.5 million for the year ended 31 December 2016. The increase was mainly a result of (i) an increase in management and staff salaries and benefits of approximately HK\$4.4 million due to (a) the payment of discretionary bonus of approximately HK\$2.7 million during 2016; and (b) the increase of number of our Group's administrative employees from 32 in 2015 to 52 in 2016; and (ii) Listing expenses of approximately HK\$2.4 million incurred in 2016. Our administrative expenses increased by 124.7% from approximately HK\$7.4 million for the four months ended 30 April 2016 to approximately HK\$16.6 million for the four months ended 30 April 2017. The increase was mainly a result of professional fees incurred for the Listing.

### *Selling expenses*

Our selling expenses principally comprise (i) freight and transportation which are charged by logistics companies for delivery of our products from warehouse to our customers' designated point and loading charges and declaration charges; (ii) business trip expenses; (iii) inspection and testing fees; and (iv) advertising and marketing fees. The following table sets out a breakdown of our selling expenses during the Track Record Period:

	<u>Year ended 31 December</u>				<u>Four months ended 30 April</u>			
	<u>2015</u>		<u>2016</u>		<u>2016</u>		<u>2017</u>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	<b>(Unaudited)</b>							
Freight and transportation	6,748	50.7	8,401	55.7	984	36.4	929	41.1
Advertising and marketing fees	1,411	10.6	2,281	15.1	481	17.8	572	25.3
Business trips expenses	2,000	15.0	1,449	9.6	572	21.1	382	16.9
Inspection and testing fees	1,158	8.7	1,251	8.3	207	7.7	181	8.1
Sample charges	868	6.5	930	6.2	427	15.8	120	5.3
Others ( <i>Note</i> )	1,117	8.5	765	5.1	34	1.2	74	3.3
<b>Total</b>	<u>13,302</u>	<u>100.0</u>	<u>15,077</u>	<u>100.0</u>	<u>2,705</u>	<u>100.0</u>	<u>2,258</u>	<u>100.0</u>

*Note:* Others mainly include declaration fees, packing charges and customs fee.

Our selling expenses increased by approximately HK\$1.8 million or approximately 13.3% from approximately HK\$13.3 million for the year ended 31 December 2015 to approximately HK\$15.1 million for the year ended 31 December 2016. The increase was mainly due to an increase in freight and transportation fees of approximately HK\$1.7 million resulting from an increase in sales which we are responsible for freight charges. Our selling expenses decreased by approximately HK\$0.4 million or approximately 16.5% from approximately HK\$2.7 million for the four months ended 30 April 2016 to approximately HK\$2.3 million for the four months ended 30 April 2017. The decrease was mainly a result of selling relatively less gift sets for the four months ended 30 April 2017, the sampling charges of which were higher as opposed to standalone items since gift sets required more packaging materials.

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### *Finance costs*

For the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017, our finance costs amounted to approximately HK\$0.3 million, HK\$0.2 million, HK\$85,000 and HK\$40,000, respectively. Our finance costs mainly comprised the interest expense on our bank borrowings.

### *Income tax expense/credit*

Pursuant to the rules and regulations of the Cayman Islands and BVI, our Group is not subject to any income tax in the Cayman Islands and BVI.

Hong Kong profits tax have been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Track Record Period.

Profit from our Group's PRC subsidiary is subject to PRC income tax. The applicable tax rate of our PRC subsidiary is 25.0%.

Our Group's effective tax rate was 18.5% and 20.3% in the years of 2015 and 2016 respectively. The increase in such rate is mainly due to the HK\$2.4 million Listing expenses incurred in the year of 2016 and which are non-deductible in nature. Effective tax rate is not applicable as our Group incurred loss for such periods for the four months ended 30 April 2016 and 2017, respectively.

### *Profit/(loss) for the year/period attributable to owners of our Company*

As a result of the foregoing, our profit for the year attributable to owners of our Company has increased by approximately 6.0% from approximately HK\$12.9 million for the year ended 31 December 2015 to approximately HK\$13.7 million for the year ended 31 December 2016. Our loss for the period attributable to owners of our Company enlarged from approximately HK\$0.4 million for the four months ended 30 April 2016 to approximately HK\$9.3 million for the four months ended 30 April 2017. Excluding the expenses incurred in connection with the Listing, loss attributable to the owners of the Company would be approximately HK\$0.3 million for the four months ended 30 April 2017.

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### NET CURRENT ASSETS

The following table sets out details of our current assets and liabilities as of the dates indicated:

	As at 31 December		As at 30 April	As at 31 August
	2015	2016	2017	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(Unaudited)
<b>Current Assets</b>				
Inventories	1,267	6,273	8,851	26,532
Trade receivables	23,200	12,546	18,382	62,640
Prepayments, deposits and other receivables	7,030	7,509	9,257	13,374
Amounts due from related parties	74,081	73,671	11	—
Financial assets at fair value through profit or loss	4,438	—	112	112
Current income tax recoverables	53	—	—	—
Restricted cash	—	—	—	1,648
Cash and cash equivalents	<u>11,025</u>	<u>41,054</u>	<u>31,591</u>	<u>7,394</u>
	121,094	141,053	68,204	111,700
<b>Current Liabilities</b>				
Trade payables	4,625	4,741	6,722	34,649
Accruals, provisions and other payables	2,444	3,426	9,502	11,777
Amounts due to related parties	38,906	50,798	252	2,452
Current income tax liabilities	142	332	116	2,815
Bank overdraft and borrowings	<u>12,054</u>	<u>6,960</u>	<u>—</u>	<u>—</u>
	58,171	66,257	16,592	51,693
<b>Net current assets</b>	<u><u>62,923</u></u>	<u><u>74,796</u></u>	<u><u>51,612</u></u>	<u><u>60,007</u></u>

The net current assets as at 31 December 2016 increased by approximately HK\$11.9 million or 18.9% comparing to that as at 31 December 2015, which was mainly attributable to the increase in cash and cash equivalents offset by the increase in amounts due to related parties as a result of the reallocation of funds among the members of our Group (which were then private companies) and their related parties.

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The net current assets as at 30 April 2017 decreased by approximately HK\$23.2 million or approximately 31.0% comparing to that as at 31 December 2016, which was mainly a result of the distribution of dividend of HK\$8.9 million for setting-off against part of the non-trade related amounts due from related companies and the decrease in cash and cash equivalents mainly attributable to the losses for the four months ended 30 April 2017.

As at 31 August 2017, we had net current assets of approximately HK\$60.0 million, representing an increase of approximately 16.3% when compared to that as at 30 April 2017. Such increase was mainly attributable to the peak season of our Group's business with larger business transaction volumes in terms of manufacturing of goods, sales of goods and purchase of raw materials as reflected by the increases in inventories and trade receivables of approximately 199.8% and 240.8% as compared to that as at 30 April 2017, which are partially off-set by the decrease in cash and cash equivalents of approximately 76.6% and the increase in trade payables of approximately 415.4% as compared to that as at 30 April 2017.

### Inventories

Our inventories primarily consist of raw materials, including packaging material, chemicals, and components such as make-up brushes, work in progress and finished goods, which comprise both beauty products and beauty bags.

During the Track Record Period, we did not record any write-offs against obsolete inventory.

The following table sets out the summary of our inventories balances as of the dates indicated:

	<u>As at 31 December</u>		<u>As at 30 April</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	818	3,487	3,286
Work in progress	107	372	605
Finished goods	<u>342</u>	<u>2,414</u>	<u>4,960</u>
Total	<u>1,267</u>	<u>6,273</u>	<u>8,851</u>

Our inventories increased from approximately HK\$1.3 million as at 31 December 2015 to approximately HK\$6.3 million as at 31 December 2016, primarily due to (i) an increase in finished goods produced to meet existing orders and which were waiting to be shipped shortly after the year end day, and (ii) an increase in raw materials that we had purchased to meet orders on hand.

Our inventories increased from approximately HK\$6.3 million as at 31 December 2016 to approximately HK\$8.9 million as at 30 April 2017, which was mainly due to an increase in finished goods which were pending to be shipped to our customers after period-end day.

As at the Latest Practicable Date, approximately 93.7% of our inventories as of 30 April 2017 were subsequently used.



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The following table sets out the average inventories turnover days for the Track Record Period:

	<b>Year ended 31 December</b>		<b>Four months ended 30 April</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Average inventories turnover days ( <i>Note</i> )	13.2	13.2	61.2

*Note:* Average inventories turnover days are based on the average balance of inventories divided by costs of sales for the relevant year/period and multiplied by the number of days in the relevant year/period (i.e. 365 days for the year ended 31 December 2015, 366 days for the year ended 31 December 2016 and 120 days for the four months ended 30 April 2017). Average balance is calculated as the average of the beginning balance and ending balance of a given year/period.

Our inventory turnover days was approximately 61.2 days for the four months ended 30 April 2017. Such increase was mainly due to a relatively higher inventory level as at 30 April 2017 as mentioned above.

### Trade Receivables

Our trade receivables primarily consist of trade receivables arising from sales of products to our customers.

We generally grant a credit period between 14 and 90 days to our customers, including Independent Third Parties customers and connected customers. The decrease in trade receivables from approximately HK\$23.2 million as at 31 December 2015 to approximately HK\$12.5 million as at 31 December 2016 was mainly due to our total sales for the last two months of financial year 2016 was less than that for financial year 2015 and an increased amount of trade receivable settled by our customers earlier for the year ended 31 December 2016 as a result of our management's effort to chase for the outstanding trade receivables.

The increase in trade receivables from approximately HK\$12.5 million as at 31 December 2016 to approximately HK\$18.4 million as at 30 April 2017 was mainly due to the increase in trade receivables from one of our top five customers, namely Customer C, which were mainly not yet past due as at 30 April 2017.

The following table sets out our trade receivables as at the dates indicated:

	<b>As at 31 December</b>		<b>As at 30 April</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	23,200	12,546	18,382

As at the Latest Practicable Date, approximately 66.9% of our trade receivables as at 30 April 2017 were subsequently settled.

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The following table sets out an ageing analysis of our trade receivables based on invoice date as at the dates indicated:

	As at 31 December		As at 30 April
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	2,264	1,318	4,213
31 to 60 days	8,908	740	3,286
61 to 90 days	1,983	3,482	1,330
91 to 120 days	1,168	110	3,770
121 to 150 days	7,389	3,086	1,352
151 to 180 days	814	457	943
Over 181 days	674	3,353	3,488
Total	23,200	12,546	18,382

As at 31 December 2015 and 2016 and 30 April 2017, trade receivables of approximately HK\$10.7 million, HK\$5.4 million and HK\$11.2 million were considered past due but not impaired. These relate to customers for whom there are no significant financial difficulties and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables based on due date is as follows:

	As at 31 December		As at 30 April
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
1 to 30 days	6,207	297	3,125
31 to 60 days	1,747	1,578	2,149
61 to 90 days	1,175	608	341
91 to 180 days	1,494	2,804	4,843
181 to 365 days	11	54	609
Over 365 days	33	48	102
	10,667	5,389	11,169

Approximately 88.8%, 74.1% and 60.7% of the trade receivables that were past due but not impaired as at 31 December 2015 and 2016 and 30 April 2017, respectively was mainly attributable to Customer C. Given that (i) we continued to have business relationship and received purchase orders from Customer C; (ii) we were able to receive settlement of the trade receivables from Customer C from time to time; and (iii) as at the Latest Practicable Date, approximately 98.3% of the trade receivables of Customer C that was past due but not impaired as at 30 April 2017 was settled, our Directors are of the view that it is reasonable not to make impairment on the past due amount in relation to Customer C.

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The following table sets out the trade receivable turnover days as at the dates indicated:

	Year ended 31 December		For the four
	2015	2016	months ended
			30 April 2017
Average trade receivables turnover days ( <i>Note</i> )	70.8	39.6	77.2

*Note:* Average trade receivables turnover days are based on the average balance of trade receivable divided by total turnover for the relevant year/period and multiplied by the number of days in the relevant year/period (i.e. 365 days for the year ended 31 December 2015, 366 days for the year ended 31 December 2016 and 120 days for the four months ended 30 April 2017). Average balance is calculated as the average of the beginning balance and ending balance of a given year/period.

Trade receivable turnover days decreased from approximately 70.8 days to approximately 39.6 days primarily due to an increased amount of trade receivable settled by our customers earlier for the year ended 31 December 2016 as a result of our management's effort to chase for the outstanding trade receivables.

Trade receivable turnover days increased from approximately 39.6 days for the year ended 31 December 2016 to approximately 77.2 days for the four months ended 30 April 2017 primarily as a result of the increase in trade receivables as discussed above.

### Prepayments, deposits and other receivables

Prepayments, deposits and other receivables mainly include deposits and prepayment paid to suppliers of our raw materials, prepayment and prepaid professional fees in respect of the Listing. The following table sets out the breakdown of our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December		As at 30 April
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental, utilities and other deposits	94	94	94
Prepayments	4,041	3,636	5,655
Prepayment for Listing expenses	—	2,060	3,857
Other receivables	2,895	1,719	1,864
	7,030	7,509	11,470

Our prepayment, deposits and other receivables increased by approximately HK\$0.5 million, from approximately HK\$7.0 million as at 31 December 2015 to approximately HK\$7.5 million as at 31 December 2016, as a result of the combined effect of an increase in prepayment for Listing of approximately HK\$2.1 million, and a decrease in other receivables of approximately HK\$1.2 million.

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Prepayments, deposits and other receivables increased by approximately HK\$4.0 million or approximately 52.8% from approximately HK\$7.5 million as at 31 December 2016 to approximately HK\$11.5 million as at 30 April 2017 and was mainly attributable to the increase in prepayment for Listing expenses of approximately HK\$1.8 million and prepayment for the construction materials of the New Cosbe Facility of approximately HK\$2.2 million.

### Amount due from/(to) related parties

The following table sets out the breakdown of our amounts due from related parties as at the dates indicated:

Amounts due from related parties	As at 31 December		As at 30 April
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Ms. Chu	3,540	—	—
Chapmont Limited	5,974	6,174	—
Sky Choice	23,166	23,576	—
Smart Path	3,626	3,680	—
Tak Bo Hong	33,340	33,340	—
Tak Bo Hong Company Limited	30	30	—
Max Choice Limited	618	618	—
Baoma	1,112	319	11
Mr. TM Or	2,675	—	—
V.M.	—	5,934	—
	74,081	73,671	11
Total	74,081	73,671	11
Amounts due to related parties	As at 31 December		As at 30 April
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Or Naam	26,050	27,648	—
Mr. Or Huen	5,380	4,645	—
Ms. Chan	5,203	6,103	—
Ms. Chu	—	11,046	—
Haohong	2,273	—	—
Mr. TM Or	—	1,356	—
Baoma	—	—	252
	38,906	50,798	252
Total	38,906	50,798	252

Save for the amount due from Baoma and the amount due to Haohong, all the other amounts due to/from related parties, as advised by our Directors, were non-trade in nature and were unsecured, interest free and repayable upon demand which were attributable to the reallocation of funds among the members of our Group (which were then private companies) and their related

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parties for, among others, real estate and other investment purposes. All non-trade balances due to/from related parties have been settled on 6 March 2017 by way of cash settlement and the distribution of dividend by Takbo. For details of such dividend, see “— Dividend”. During the Track Record Period, we purchased beauty bags from Baoma. The balance with Haohong as at 31 December 2015 was resulted from our purchase of beauty bags from Haohong before the Track Record Period.

### Trade payables

Our trade payables totaled approximately HK\$4.6 million, HK\$4.7 million and HK\$6.7 million as at 31 December 2015 and 2016 and 30 April 2017, respectively. Our trade payables primarily consist of trade payables to our raw material suppliers. Our suppliers generally grant us a credit period of 20 days to 60 days.

The following table sets out an ageing analysis of our trade payables as at the dates indicated:

	As at 31 December		As at 30 April
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
1 to 30 days	2,361	4,378	2,412
31 to 60 days	737	46	2,166
61 to 90 days	22	67	171
91 to 120 days	61	8	431
121 to 180 days	202	78	1,044
181 to 365 days	1,242	164	416
Over 365 days	—	—	82
	4,625	4,741	6,722

As at the Latest Practicable Date, approximately 88.9% of our trade payables as at 30 April 2017 has been subsequently settled.

The following table sets out the trade payable turnover days for the Track Record Period:

	Year ended 31 December		Four months ended 30 April
	2015	2016	2017
	Average trade payable turnover days ( <i>Note</i> )	24.9	18.6

*Note:* Average trade payable turnover days are based on the average balance of trade payables divided by total purchase for the relevant year/period and multiplied by the number of days in the relevant year/period (i.e. 365 days for the year ended 31 December 2015, 366 days for the year ended 31 December 2016 and 120 days for the four months ended 30 April 2017). Average balance is calculated as the average of the beginning balance and ending balance of a given year/period.

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Trade payable turnover days increased from approximately 18.6 days to approximately 47.3 days primarily due to outstanding payable balance with one of our suppliers as at 30 April 2017, which had been fully settled as at the Latest Practicable Date.

### Accruals, provisions and other payables

The following table sets out the breakdown of our accruals as at the dates indicated.

	As at 31 December		As at 30 April
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Receipts in advance	924	547	371
Provisions and accrued expenses	1,454	2,530	8,171
Other payables	<u>66</u>	<u>349</u>	<u>960</u>
	<u>2,444</u>	<u>3,426</u>	<u>9,502</u>

Our accruals, provisions and other payables increased from approximately HK\$2.4 million as at 31 December 2015 to approximately HK\$3.4 million as at 31 December 2016 mainly due to the accrual of Listing expenses of approximately HK\$0.9 million as at 31 December 2016. Our accruals, provisions and other payables increased from approximately HK\$3.4 million as at 31 December 2016 to approximately HK\$9.5 million as at 30 April 2017 mainly due to the increase in accrual of Listing expenses of approximately HK\$5.1 million as at 30 April 2017.

### Bank overdraft and borrowings

As at 31 December 2015 and 2016, we had outstanding bank overdraft and borrowings of approximately HK\$12.1 million and approximately HK\$7.0 million, respectively. As at 30 April 2017, all of our bank borrowings have been repaid, the banking facilities and the relevant guarantees, pledges or other forms of security have been terminated. During the Track Record Period, we did not breach any covenant in relation to our bank borrowings and facilities. We did not record any delay or default in our bank borrowings during the Track Record Period.

In August 2017, our Group has obtained short-term banking facilities in relation to overdraft and trade financing in aggregate of up to HK\$21.0 million. The loan facilities were secured by the personal guarantees of Mr. Or Naam and Ms. Chan. As at the Latest Practicable Date, these facilities of trade bills were utilised by our Group as to approximately HK\$4.7 million. According to the facility letter, the personal guarantees of Mr. Or Naam and Ms. Chan can be released and replaced by a corporate guarantee by our Company conditional upon, among other things, successful Listing.

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## FINANCIAL INFORMATION

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### RELATED PARTY TRANSACTIONS

With respect to the related party transactions set forth in Note 32 to the Accountant's Report set out in Appendix I to this prospectus, our Directors confirm that for (i) the transactions between our Group and Baoma in relation to the purchase of beauty bags and property leases; and (ii) the transactions between our Group and Haohong in relation to purchase of packaging materials were conducted on arm's length basis and based on normal commercial terms and were fair and reasonable and in the interest of our Company and our Shareholders as a whole. As such, our Directors are of the view that these related party transactions did not distort our financial results during the Track Record Period or cause our Track Record Period results to be unreflective of our future performance. The transactions between our Group and Baoma will continue after Listing and constitute continuing connected transactions, for details, please refer to "Connected Transactions — Non-exempt continuing connected transactions". Save for the transactions between our Group and Baoma, none of the related party transactions set forth in Note 32 to the Accountant's Report set out in Appendix I to this prospectus will continue after Listing.

### LIQUIDITY AND CAPITAL RESOURCES

Our Group's liquidity and working capital requirements primarily relate to our operating costs and capital expenditures on property, plant and equipment. During the Track Record Period, we have funded our liquidity and working capital requirements through a combination of shareholders' equity, cash generated from operations, bank overdraft and borrowings and amounts due to related parties. On 6 March 2017, all the balances of non-trade amounts due to related parties had been settled. Going forward, we expect to fund our working capital, capital expenditures, and other liquidity requirements with a combination of sources, including but not limited to cash generated from our operations, banking facilities, net proceeds from the Share Offer as well as other external equity and debt financing.

As at 31 December 2015 and 2016 and 30 April 2017, our Group had cash and cash equivalents amounting to approximately HK\$11.0 million (which includes a bank overdraft of approximately HK\$8.0 million), HK\$41.1 million and HK\$31.6 million, respectively.

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## FINANCIAL INFORMATION

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### Cash Flow

The following table sets forth certain information regarding our combined cash flows for the Track Record Period:

	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Unaudited)	
Net cash generated from/(used in) operating activities	28,006	20,781	13,935	(8,520)
Net cash (used in)/generated from investing activities	(1,742)	(2,115)	(319)	10,667
Net cash (used in)/generated from financing activities	<u>(32,529)</u>	<u>19,931</u>	<u>(1,196)</u>	<u>(11,338)</u>
Net (decrease)/increase in cash and cash equivalents	(6,265)	38,597	12,420	(9,191)
Effect of foreign exchange rate charge	—	(569)	(569)	(272)
Cash and cash equivalents at beginning of financial year/period	<u>9,291</u>	<u>3,026</u>	<u>3,026</u>	<u>41,054</u>
Cash and cash equivalents at end of financial year/period	<u><u>3,026</u></u>	<u><u>41,054</u></u>	<u><u>14,877</u></u>	<u><u>31,591</u></u>

### Net cash generated from operating activities

For the year ended 31 December 2015, our net cash generated from operating activities amounted to approximately HK\$28.0 million, which primarily reflected our profit before tax of approximately HK\$15.8 million, as positively adjusted by (i) the decrease in trade receivable of approximately HK\$19.9 million; (ii) the decrease in inventories of approximately HK\$6.1 million as a result of the shipment of finished goods to customers before the year-end date; and (iii) adding back the non-cash depreciation of property, plant and equipment of approximately HK\$1.8 million, and offset by (i) the increase in amount due from related parties of approximately HK\$4.7 million which were attributable to the reallocation of funds among the members of our Group (which were then private companies) and their related parties; (ii) the increase in financial assets at fair value through profit or loss of approximately HK\$4.4 million due to the purchase of the financial assets during the year; (iii) the decrease in trade payable of approximately HK\$3.8 million; and (iv) the income tax paid of approximately HK\$2.9 million.



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For the year ended 31 December 2016, our net cash generated from operating activities amounted to approximately HK\$20.8 million, which primarily reflected our profit before tax of approximately HK\$17.1 million, as positively adjusted by (i) a decrease in trade receivable of approximately HK\$10.7 million mainly due to less sales in the last two months of financial year 2016 as compared to that for the financial year 2015; (ii) a decrease in financial assets at fair value through profit or loss of approximately HK\$4.1 million as such financial assets were settled during 2016; (iii) adding back the non-cash depreciation of property, plant and equipment of approximately HK\$1.6 million; and (iv) the increase in accruals, provisions and other payables of approximately HK\$1.3 million mainly due to the increase in accrued Listing expenses, and offset by (i) the increase in inventories of approximately HK\$4.9 million purchased/produced for meeting customer orders as at 31 December 2016; (ii) the increase in amount due from related companies of approximately HK\$5.4 million which were attributable to the reallocation of funds among the members of our Group (which were then private companies) and their related parties; and (iii) the income tax paid of approximately HK\$3.4 million.

The net cash outflows from operating activities for the four months ended 30 April 2017 of approximately HK\$8.5 million primarily reflected the loss before tax of approximately HK\$9.4 million, as positively adjusted by (i) the increase in accruals, provisions and other payables of approximately HK\$5.9 million mainly due to the increase in accrued Listing expenses; and (ii) the increase in trade payables of approximately HK\$1.9 million. Such effect was partially offset by the increase in the inventories purchased/produced for meeting customer orders of approximately HK\$2.4 million as at 30 April 2017 and the increase in trade receivables of approximately HK\$5.8 million.

### **Net cash (used in)/generated from investing activities**

For the year ended 31 December 2015, our Group recorded a net cash used in investing activities of approximately HK\$1.7 million, which was mainly attributable to cash used for purchase of equipment in the amount of HK\$1.8 million for replacement of obsolete equipment.

For the year ended 31 December 2016, our net cash used in investing activities amounted to approximately HK\$2.1 million, which was mainly attributable to cash used for purchases of equipment in the amount of approximately HK\$2.3 million for replacement of obsolete equipment.

For the four months ended 30 April 2017, our net cash generated from investing activities of approximately HK\$10.7 million was mainly attributable to the repayments received from related parties offset by cash used for purchase of equipment in the amount of approximately HK\$4.5 million for replacement of obsolete equipment.

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## FINANCIAL INFORMATION

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### **Net cash (used in)/generated from financing activities**

For the year ended 31 December 2015, our Group recorded net cash used in financing activities of approximately HK\$32.5 million, which was mainly attributable to (i) net repayment of bank borrowings of approximately HK\$1.6 million; and (ii) increase in amounts with related parties of approximately HK\$31.0 million which was attributable to the reallocation of funds among the members of our Group (which were then private companies) and their related parties.

For the year ended 31 December 2016, our net cash generated from financing activities amounted to approximately HK\$19.9 million, which was mainly attributable to (i) the decrease in amounts with related parties of approximately HK\$17.5 million which was attributable to the reallocation of funds among the members of our Group (which were then private companies) and their related parties; and (ii) the proceeds received from bank borrowings of approximately HK\$7.0 million, and offset by the repayment of bank borrowings of approximately HK\$3.8 million.

For the four months ended 30 April 2017, our net cash used in financing activities of approximately HK\$11.3 million was mainly attributable to the increase of amount with related parties of approximately HK\$1.7 million, the repayment of bank borrowings of approximately HK\$6.7 million and prepayment of Listing expenses of approximately HK\$2.9 million.

### **WORKING CAPITAL**

Our Directors are of the opinion that, taking into consideration of the financial resources presently available to our Group, including cash and cash equivalents on hand, its operating cash flow and the expected proceeds from the Share Offer, we have sufficient working capital for our present working capital requirements for at least the next twelve months from the date of this prospectus.

Our Directors believe that our Company will have sufficient foreign exchange to meet its foreign exchange liabilities as they become due (if any) and anticipate that the necessary foreign exchange may be funded by cash generated from operating activities.

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## FINANCIAL INFORMATION

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### ANALYSIS OF KEY FINANCIAL RATIOS

The following table sets out a summary of the key financial ratios of our Group during the Track Record Period:

	As at/Year ended 31 December		As at/Four months ended 30 April
	2015	2016	2017
<b>Profitability ratios</b>			
Gross margin (%) <sup>(1)</sup>	30.0	36.6	38.3
Net profit margin (%) <sup>(2)</sup>	7.5	8.3	N/A
<b>Rates of return</b>			
Return on total assets (%) <sup>(3)</sup>	10.1	9.2	N/A
Return on equity (%) <sup>(4)</sup>	18.7	16.8	N/A
<b>Liquidity</b>			
Current ratio (times) <sup>(5)</sup>	2.1	2.1	4.1
Quick ratio (times) <sup>(6)</sup>	2.1	2.0	3.6
<b>Capital adequacy</b>			
Interest coverage ratio (times) <sup>(7)</sup>	57.3	88.8	N/A
Gearing ratio (%) <sup>(8)</sup>	70.6	71.0	N/A

*Notes:*

1. Calculated using gross profit for the year divided by total revenue for the same year/period and multiplied by 100%.
2. Calculated using profit attributable to owners of our Company for the year/period divided by total revenue for the same year/period and multiplied by 100%.
3. Calculated using profit attributable to owners of our Company for the year/period divided by the total assets at the end of the year/period and multiplied by 100%
4. Calculated using profit attributable to owners of our Company for the year/period divided by the total equity at the end of the year/period and multiplied by 100%.
5. Calculated using total current assets divided by total current liabilities at the end of the year/period.
6. Calculated using the result of total current assets less inventories divided by total current liabilities at the end of the year/period.
7. Calculated using the sum of profit before income tax and interest expense on bank borrowings for the year divided by interest expense on bank borrowings for the year/period.
8. Calculated using total debt divided by total equity at the end of the year/period and multiplied by 100%. Total debt is defined to include bank overdraft and bank borrowings and amounts due to related parties in non-trade nature.

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## FINANCIAL INFORMATION

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Details of revenue growth and net profit growth of our Group are set out in “— Selected historical combined financial information — Descriptions of selected income statement line items”.

### **Return on total assets**

Our return on total assets decreased from approximately 10.1% for the year ended 31 December 2015 to approximately 9.2% for the year ended 31 December 2016, mainly due to the increase in the cash balance as a result of the allocation of fund from the related companies and the net cash generated from operating activities. Return on total assets is not applicable for the four months ended 30 April 2017 due to the loss making position.

### **Return on equity**

Our return on equity decreased from approximately 18.7% for the year ended 31 December 2015 to approximately 16.8% for the year ended 31 December 2016, mainly due to increase in total equity as a result of the increased retained earnings. Return on equity is not applicable for the four months ended 30 April 2017 due to the loss making position.

### **Current ratio**

Our current ratio remained relatively stable at approximately 2.1 times as at 31 December 2015 and 2016. Our current ratio increased from approximately 2.1 times as at 31 December 2016 to approximately 4.1 times as at 30 April 2017. Such increase was mainly due to the increase in the inventories, trade receivables and the decrease in bank overdraft and borrowings as discussed above.

### **Quick ratio**

Our quick ratio slightly decreased from approximately 2.1 times as at 31 December 2015 to approximately 2.0 times mainly due to the higher level of inventories maintained as at 31 December 2016 which were ready for use or for shipment to customers shortly after the year-end date. Similar to the current ratio, the increase in our quick ratio from approximately 2.0 times as at 31 December 2016 to approximately 3.6 times as at 30 April 2017 was mainly due to the increase in the trade receivables and the decrease in bank overdraft and borrowings as discussed above.

### **Interest coverage ratio**

Our interest coverage ratio increased from approximately 57.3 times for the year ended 31 December 2015 to approximately 88.8 times for the year ended 31 December 2016 mainly due to the reduction of bank overdraft and borrowings which in turn reduced the interest expense on bank overdraft and borrowings during 2016. Interest coverage ratio is not applicable for the four months ended 30 April 2017 due to the loss making position.

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## FINANCIAL INFORMATION

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### **Gearing ratio**

Our gearing ratio slightly increased from approximately 70.6% as at 31 December 2015 to approximately 71.0% as at 31 December 2016 mainly attributable to the increase in non-trade amounts due to related parties which were attributable to the reallocation of funds among the members of our Group (which were then private companies) and their related parties. Gearing ratio is not applicable as at 30 April 2017 as our Group has no borrowing.

### **INDEBTEDNESS**

#### **Contingent liabilities**

As at 31 December 2015 and 2016, 30 April 2017 and 31 August 2017, our Group did not have any material contingent assets/liabilities and off-balance sheet commitments and arrangements, save for capital commitment of approximately HK\$2.2 million, HK\$5.7 million and HK\$5.9 million as at 31 December 2016, 30 April 2017 and 31 August 2017, respectively.

In August 2017, our Group obtained short-term banking facilities in relation to overdraft and trade financing in aggregate of up to HK\$21.0 million. The loan facilities were secured by the personal guarantees of Mr. Or Naam and Ms. Chan. According to the facility letter, the personal guarantees of Mr. Or Naam and Ms. Chan can be released and replaced by a corporate guarantee by our Company conditional upon, among other things, successful Listing.

As at 31 August 2017, being the latest practicable date for determining our indebtedness, we did not have any borrowings, bank overdrafts, outstanding loan capital and liabilities under acceptances or other similar indebtedness, debt securities, term loans, debentures, mortgages, charges or loans, or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

#### **Material indebtedness change**

Save for the above, our Directors confirmed that, up to the date of this prospectus, there has been no material change in our Group's indebtedness since 31 August 2017, being the latest practicable date for the preparation of the indebtedness statement in this prospectus.

### **CAPITAL EXPENDITURE**

Our Group's capital expenditure for the Track Record Period mainly represented leasehold improvements, additions to plant and machinery, furniture and equipment, major vehicles and construction in progress in relation to our factory expansion. Our Group's capital expenditures for the two years ended 31 December 2016 and the four months ended 30 April 2016 and 2017 were approximately HK\$1.8 million, HK\$2.3 million, HK\$0.4 million and HK\$4.5 million, respectively. Save for the factory expansion, details of which are set out in "Future Plans and Use of Proceeds", we do not have any other material planned capital expenditure as at the Latest Practicable Date.

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## FINANCIAL INFORMATION

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### CAPITAL COMMITMENTS

Our Group had the following capital commitments as at the dates indicated:

	<u>As at 31 December</u>		<u>As at 30 April</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	—	2,213	5,743

Our Group's capital commitments as at 31 December 2016 and 30 April 2017 principally represented our commitment in relation to expenditure on our factory expansion, details of which are set out in "Future Plans and Use of Proceeds".

### OPERATING LEASE COMMITMENTS

Our Group leases an office property, residential property, production facility and warehouse in Hong Kong and the PRC. As at 31 December 2015 and 2016 and 30 April 2017, our Group had the following operating lease commitments in respect of our Group's leased properties:

	<u>As at 31 December</u>		<u>As at 30 April</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
No later than one year	1,999	2,597	2,450
Later than one year and no later than five years	<u>1,200</u>	<u>994</u>	<u>1,216</u>
<b>Total</b>	<u><u>3,199</u></u>	<u><u>3,591</u></u>	<u><u>3,666</u></u>

### DISTRIBUTABLE RESERVES

Our Company was not incorporated in the Cayman Islands until 8 February 2017. As at 30 April 2017, we had no reserves available for distribution to our Shareholders.

### DIVIDEND

During the two years ended 31 December 2016, no dividends have been declared and paid by the companies now comprising our Group to their then respective shareholders. On 6 March 2017, Takbo declared a special dividend of approximately HK\$8.9 million to its then shareholders, Mr. Or Naam and Ms. Chu and such dividend has been distributed by way of setting-off against amounts due from related companies.

Cash dividends on the Shares, if any, will be paid in HKD. Our Board has absolute discretion as to whether to declare any dividend for any year end and if any, the amount of dividend and the means of payment. Such discretion is subject to any applicable laws and regulations including the

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## FINANCIAL INFORMATION

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Companies Law and our Articles. Subject to the Companies Law and our Articles, our Company may in general meeting declare dividends, but no dividends shall exceed the amount recommended by our Board. Our Board may, subject to our Articles, from time to time pay to our Shareholders such dividends as appear to our Board to be justified by the financial conditions and the profits of our Company. Our Board may in addition from time to time declare and pay special dividends of such amounts and on such dates and out of such distributable funds of our Company as it thinks fit. The amount of any dividends to be declared and paid in the future may depend on, among other things, our dividend policy, results of operations, earnings, cash flows, financial conditions, capital requirements, etc. and there is no assurance that our Company will be able to declare or distribute any dividend in the amount set out in any plan of our Board or at all. Currently, we do not have any predetermined dividend distribution ratio.

### LISTING EXPENSE

Our Directors are of the view that the financial results of our Group for the year ending 31 December 2017 are expected to be adversely affected by the Listing expenses in relation to the Share Offer, the nature of which is non-recurring. The total Listing fees in relation to the Share Offer, primarily consisting of fees paid or payable to professional parties and underwriting fees and commission, are estimated to be approximately HK\$25.6 million (based on the mid-point of the indicative Offer Price range of HK\$0.67 per Offer Share and 100,000,000 Offer Shares). Among the estimated total Listing fees, (i) approximately HK\$8.5 million is expected to be accounted for as a deduction from equity upon Listing; and (ii) approximately HK\$17.1 million would be recognised as expenses in our combined income statements, of which approximately HK\$11.4 million had been recognised up to 30 April 2017 and the balance of approximately HK\$5.7 million is expected to be recognised during the eight months ending 31 December 2017.

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please see “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus for details.

### POST BALANCE SHEET EVENTS

Please refer to “Summary — Recent developments” and Note 34 to the Accountant’s Report in Appendix I to this prospectus.

### NO MATERIAL ADVERSE CHANGE

Save for the Listing expenses of approximately HK\$5.7 million which will be recognised during the eight months ending 31 December 2017, our Directors do not expect to have any material adverse change in our financial or trading position or prospect since 30 April 2017, being the date of which our latest audited financial information was prepared up to the date of this prospectus and there had been no event since 30 April 2017 which would materially affect the information shown in the Accountant’s Report set out in Appendix I to this prospectus.

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### DISCLOSURE PURSUANT TO CHAPTER 17 OF THE GEM LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure obligation pursuant to Rules 17.15 to 17.21 of the GEM Listing Rules.

### FINANCIAL RISK MANAGEMENT

The major financial risks arising from our Group's normal course of business include foreign exchange risk, interest rate risk, credit risk and liquidity risk. For details, please refer to Note 3 to the Accountant's Report in Appendix I to this prospectus.



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## FUTURE PLANS AND USE OF PROCEEDS

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### BUSINESS STRATEGIES AND FUTURE PLANS

Our goal is to strengthen our position as a beauty products manufacturer and solutions provider of beauty bags to the extent that it can complement our Group's manufacture and sale of beauty products, and leverage on our competitive advantages to expand our scale of operations and increase our profit. We plan to achieve this goal by (i) increasing our production capabilities and capacities; (ii) expanding our Hong Kong headquarters to cope with the expansion of our operations; and (iii) conducting promotional and marketing activities such as participating in local and global beauty exhibitions to improve our branding and exposure to customers.

#### **Bases and assumptions**

Our Directors have adopted the following principal assumptions in the preparation of the future plans from the Latest Practicable Date up to 31 December 2019:

- (a) there will be no material changes in the existing political, legal, fiscal, social or economic conditions in Hong Kong and the PRC, or in any other places in which any member of our Group carries on its business or will carry on its business or sales of our products;
- (b) our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- (c) there will be no material changes in the bases or rates of taxation in Hong Kong and the PRC or in any other places in which any member of our Group operates or will operate;
- (d) there will be no material changes in legislation or regulations whether in Hong Kong and the PRC or elsewhere materially affecting the business carried on by our Group;
- (e) there will be no significant changes in our Group's business relationship with its existing strategic and business partners;
- (f) there will be no significant changes in our Group's business relationship with its major customers and suppliers;
- (g) our Group will be able to continue its operation in substantially the same manner as our Group has been operating during the Track Record Period and our Group will also be able to carry out its development plans without disruptions adversely affecting its operations or business objectives in any way;
- (h) our Group will be able to retain key staff in the management and the main operational departments;
- (i) there will be no material changes in the funding required for each of the scheduled achievements as outlined in "— Implementation plans";

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## FUTURE PLANS AND USE OF PROCEEDS

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- (j) our Group will not be materially affected by the risk factors as set out in “Risk Factors”; and
- (k) the Share Offer will be completed in accordance with and as described in “Structure and Conditions of the Share Offer”.

We set out our business strategies and future plans below:

**(1) Increase our production capabilities and capacities**

**(i) *Background***

As at the Latest Practicable Date, our beauty products are manufactured in-house at the Cosbe Facility. During the Track Record Period, we have leased the Cosbe Facility from Baoma, a connected person of our Company, as our production facility, warehouse and office, comprising a total gross floor area of approximately 6,000 sq.m. During the Track Record Period, our beauty products were principally sold in seasonal gift sets comprising two or more items or otherwise as seasonal standalone beauty products, targeted for sale during holiday and festive seasons. To a lesser extent, our beauty products were sold as non-seasonal standalone items for everyday use.

**(ii) *Rationale for our strategy to develop and sell more non-seasonal standalone beauty products not only for the holiday and festive seasons but all year round (“Strategy”)***

As our previous sales focus was on gift sets of beauty products targeted for sale during holiday and festive seasons, our sales may fluctuate from year to year depending on our customers’ marketing plan and budget for that particular year. The product life cycles of seasonal gift sets and standalone beauty products are relatively short, e.g. it may only last for one particular holiday season. Therefore, we need to design new products for different holiday seasons. Hence, the purchase orders of our customers are generally not recurring. On the other hand, non-seasonal standalone beauty products are designed for everyday use, which are available for purchase any time of the year, and target repeat end-customers who use such beauty products on a daily basis. Therefore, the product life cycles of non-seasonal standalone beauty products are comparatively longer than seasonal gift sets and standalone beauty products and the sales thereof are generally recurring in nature. Hence, we believe that our Strategy will strengthen our position as an established beauty products manufacturer and enable us to (i) generate a more stable and recurring source of income; and (ii) attract more beauty products brand owner customers. As a result, our sales would also be less subject to seasonality.

The beauty products gift sets retail market is only a small sub-segment within the beauty products retail market, accounting for approximately 6.8% and 4.4% of the retail sales value of beauty products in the U.S. and the PRC in 2016, respectively, according to the F&S Report. Therefore, our Strategy will allow us to enlarge our exposure to the larger beauty products retail markets in the U.S. and the PRC. Further, according to the F&S Report, the

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## FUTURE PLANS AND USE OF PROCEEDS

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U.S. and PRC beauty products retail markets, including the gift sets sub-segment are also expected to experience further growth in the next five years. By implementing our Strategy, not only are we able to continue to capture the consumer market of seasonal gift sets and standalone beauty products but we will also be able to increase our exposure to the growing overall retail market of beauty products in the long run.

**(iii) *Enhanced industry standard required for the manufacture of non-seasonal standalone beauty products***

According to the F&S Report, product quality consistency is essential to the manufacture of non-seasonal standalone beauty products for sale all year round as the quality of a product has to be maintained throughout the product life cycle. As such, the manufacture of non-seasonal standalone beauty products requires machineries and systems with a higher level of precision as compared to the manufacture of seasonal gift sets and standalone beauty products targeted for sale in holiday and festive seasons. Further, according to the F&S Report, precision level is one of the key indicators to evaluate the performance of machineries and systems for the manufacture of beauty products and is associated with the quality of the final product.

In general, requirement on precision level may vary depending on product types, complexity of products, quantity/volume of production in each run and the time of operation for the particular machinery and production system. For example, non-seasonal standalone beauty products are usually produced in large quantity and multiple orders. Therefore, such kind of beauty products is generally manufactured by the machineries and systems with higher level of precision to minimise quality issues, ensure consistent product output such as colour tone, as well as minimise generation of defective products and wastes during mass production.

Since non-seasonal standalone beauty products are designed for repeat every day use, it is crucial to ensure that the product output of each order is consistent. For example, an end-customer would expect the colour tone and beauty effect of a foundation or a lipstick to be consistent every time he/she purchases the same model. Any slight deviation would have an adverse impact on the customer's perception on the quality of the beauty product and may deter the customer from purchasing such beauty product again. In contrast, seasonal beauty products are usually targeted for sale in holiday and festive seasons and are generally only produced in one season where the production volume is much lower than that of non-seasonal standalone beauty products which may be sold all year round. Therefore, there is limited requirement to ensure the product output of each order of seasonal beauty products to be consistent (i.e. the seasonal beauty products of each order are different).

Our Directors therefore believe that customers of non-seasonal standalone beauty products will have a more stringent assessment criteria when selecting their beauty products manufacturers, as compared to customers of seasonal beauty products.

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## FUTURE PLANS AND USE OF PROCEEDS

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- (iv) *Primary reason to upgrade our production facility — Pressing and imminent need to increase our production capabilities by upgrading our production facility to maintain our competitiveness as well as to complement our Strategy*

Whilst our Group ranked fifth in the beauty products manufacturing market by revenue in the PRC in 2016, the total market share of the top five players in 2016 was approximately 4% in total and no player dominates the market. The beauty products manufacturing market in the PRC is highly fragmented and competition is highly intense. As disclosed in “Industry Overview”, the number one threat and challenge to our Group is that the market share of high-end beauty product manufacturing in the PRC is occupied by international manufacturers with strong R&D capabilities and solid financial strength, it is absolutely vital for our Group to focus on continually improving our quality control and production capability, just like many of our peers, to remain relevant and competitive in the market. In that sense, regardless of whether or not additional capacity is required for our peak season and how long that season lasts, such issues may not be directly relevant to the question of how imminent is our need to establish the New Cosbe Facility. Our Directors believe that responsible management should articulate appropriate strategy to maintain competitiveness in any fast-changing market environment, including that of the beauty products manufacturing market with ever-evolving trends, constantly changing consumer taste and higher quality requirements.

According to the F&S Report, industry requirement on the quality of beauty products has been continuously increasing and is expected to continue to increase in the near future. The Cosbe Facility has not undergone material upgrading works for the past 10 years, many of our existing machineries and equipment have therefore passed their expected useful life. Such machineries and equipment have low level of efficiency and automation, and therefore are more prone to errors as compared to production processes with higher level of automation. In addition, the Cosbe Facility has had its share of fair wear and tear and is in need of renovation and/or upgrading. We need to upgrade our production facility in order to appeal to new customers, particularly the internationally renowned beauty products brand owners, otherwise, our Group’s ability to expand its customer base and business scale will be restricted.

Further, the Cosbe Facility obtained the ISO 9001 and GMPC accreditations in 2006 and 2008, respectively. With continuously increasing regulatory requirements and standards of GMPC and ISO, our Directors believe that the infrastructure and facilities of the Cosbe Facility, which was designed to meet requirements over 10 years ago, may soon not be able to meet the increased standards and requirements.

Therefore, our Directors believe that if our production facility is not being timely upgraded, given its inefficient status, the quality of the beauty products manufactured by the Cosbe Facility will not be up to industry standard in the near future and the efficiency of our production will continue to decrease. As a result, we will be unable to remain competitive in the beauty products manufacturing market. In the worst scenario, the Cosbe Facility may even be unable to satisfy the requirements, standards and demands expected from our existing customers of seasonal gift sets in the foreseeable future, and hence we may lose our existing customers.

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In addition, according to the F&S Report, beauty product manufacturers in the PRC are expected to upgrade their production facilities and equipment in order to meet the rising industry standard of cosmetics in the near future. Accordingly, our Directors expect the fellow competitors of our Group will also upgrade their production facilities and as such, an upgrade of our production facility is essential in allowing us to keep pace with the industry standard and maintain our competitiveness.

Further, since most of the machineries and equipment of the Cosbe Facility are aged over 10 years, the technology of which are out-dated and unable to support the level of precision required in manufacturing non-seasonal standalone beauty products for everyday use in large quantities. While the production line is not fully automated, many processes are handled and monitored manually. For example, the baking process of wet powder colour cosmetics is timed and temperature controlled manually and that semi-products are transferred from one process to another process manually. Therefore, the production process is more prone to errors as compared to production processes with higher level of automation and has low level of precision.

It should be noted that notwithstanding the Cosbe Facility is currently producing non-seasonal standalone beauty products, the volume of which is limited. Despite the revenue from sale of non-seasonal standalone beauty products for the four months ended 30 April 2017 increased by approximately 28.6% as compared to that for the same period in 2016, the sales volume of non-seasonal standalone beauty products in fact decreased slightly from approximately 2,221,000 units for the four months ended 30 April 2016 to approximately 2,160,000 units for the same period in 2017. This is because the low level of efficiency and precision of the existing machineries of the Cosbe Facility restricts the volume of non-seasonal beauty products that we could produce. Given such constraint, our sales team attempted to select sales orders with higher average selling prices. In order to compensate for the low level of efficiency and precision of the existing machineries of the Cosbe Facility, we had to use more manpower to monitor the production process and maintain the machineries. However, this is only an interim measure and is unable to cater for large volume of production.

For the above reason, our Directors believe that a failure to upgrade our production facility with the requisite state-of-the-art machineries, systems and infrastructure will be a major constraint for us to implement our Strategy, attract and capture new customers of non-seasonal standalone beauty products, and secure orders from them. Therefore, the need to upgrade our production facility is pressing and imminent.

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(v) *Secondary reason to upgrade our production facility — Increasing our production capacities to counter the constraints of the Cosbe Facility, allow for consistent and uninterrupted production of non-seasonal standalone beauty products and for long-term development*

(a) *Limited floor area and high utilisation rates of the Cosbe Facility during peak seasons are constraints of the Cosbe Facility*

The utilisation rates of the production lines of the Cosbe Facility based on the actual average monthly production volumes in 2015, 2016 and the four months ended 30 April 2017 did not reach a maximum and was underutilised for non-peak season periods. However, we experienced high utilisation rates of the Cosbe Facility during the peak seasons in the Track Record Period, with such rates having exceeded (i) 100% for the colour cosmetics (powder-based formula), toiletries (liquid-type formula) and toiletries (emulsion-type formula) in 2015; and (ii) 100% for colour cosmetics (powder-based formula) and toiletries (liquid-type formula) in 2016. During the Track Record Period, the high utilisation rates in the peak seasons were mainly due to the fact that we adjusted our working hours and engaged service providers on an as-needed basis to meet our production needs. The adjustment of working hours at the Cosbe Facility was only an interim and contingent measure to increase our production capacity in the short term. In addition, the floor area is another constraint during peak seasons. Our Directors confirmed that the floor area of the Cosbe Facility is insufficient to allow concurrent operation of all of our existing machineries.

Our Directors consider that customers of non-seasonal standalone beauty products will expect our production facility to generate consistent volumes of beauty products on a monthly basis and in an uninterrupted manner, as orders from such customers are expected to be regularly placed and fulfilled all year round in monthly intervals. To be able to achieve such expectation, our production facility is required to have sufficient buffer capacity to accommodate such orders, which we lack during peak seasons. In light of the above, the high utilisation rates of our production lines at the Cosbe Facility during peak seasons will be another constraint for us to secure orders from customers of non-seasonal standalone beauty products, as the Cosbe Facility has little room to accommodate additional orders during peak seasons and we will be unable to produce the required volumes of non-seasonal standalone beauty products during peak seasons. Therefore, even though the peak seasons of production for a particular category of beauty product are relatively short, our Directors are of the view that our inability to continuously produce beauty products in monthly intervals will be a hurdle for us to secure more orders from customers of non-seasonal standalone beauty products.

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(b) *Impracticality in evenly allocating production of the Cosbe Facility due to customer-driven order placement and delivery schedule*

In addition, according to the F&S Report, the beauty products manufacturing market is highly competitive and beauty products manufacturers generally have no control over their customers' own schedule and frequency in respect of order placement and delivery deadline. Given the fragmented nature of the beauty products manufacturing market, failure to accommodate with the customer's intended schedule for order placement and delivery may result in the beauty product manufacturer's loss of such customer. As such, order placement and delivery schedule is customer-driven. Some customers may even require delivery on an urgent or short time frame basis. It is therefore not practical to more evenly allocate the manufacture of beauty products by the Cosbe Facility in other non-peak season periods given that our frequency of production depends on the order placement and delivery schedules of our customers.

(c) *Increase production capacities for long-term expansion*

As explained in “— (vi) Reasons for not upgrading the Cosbe Facility but setting up the New Cosbe Facility” below, due to certain regulatory and technical constraints, it is infeasible to make any material modification to our production facility without disruption to our production. Hence, it is impractical to expand our production capacity from time to time. Therefore, when designing the capacity of the New Cosbe Facility, our management considered the need to cope with our expansion of business operation and increase in production volume in a longer time frame, i.e. at least 10 years' time. Accordingly, the capacity of the New Cosbe Facility is substantially higher than that of the Cosbe Facility, despite the utilisation rates of the Cosbe Facility during non-peak seasons are not high.

**(vi) *Reasons for not upgrading the Cosbe Facility but setting up the New Cosbe Facility***

We explain below the reasons for establishing the New Cosbe Facility rather than upgrading and expanding the Cosbe Facility:

(a) *Approval requirement — regulatory constraints*

Unlike other unregulated industries, the beauty products industry in the PRC is regulated and we are required under the Notice on Matters Concerning Production Permit for Cosmetics Products by the China Food and Drug Administration\* (《國家食品藥品監督管理總局關於化妝品生產許可有關事項的公告》) promulgated by the China Food and Drug Administration on 15 December 2015 to obtain the Cosmetics Production Permit\* (化妝品生產許可證) prior to production of our beauty products. At the time of application of the Cosmetics Production Permit\* (化妝品生產許可證), we were required under the Specifications on Cosmetics Production Approval\* (《化妝品生產許可工作規範》) to submit information on, among others, our production workflow and equipment, our production lines and their respective environmental conditions as well as construction

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and renovation (including construction material, ventilation, sterilisation facility) for approval by the local bureau of the China Food and Drug Administration. Any material modification to the information submitted to the local bureau for approval at the time of application will require re-approval from the said bureau. For example, an application for approval to the local bureau is required for relocation or material upgrade of the production facility.

(b) *Clean production requirement — practical constraints*

We are required to monitor the environmental conditions, including but not limited to air condition, bacteria level, dust contamination and ventilation, of our production lines and we have to maintain clean production lines for certain production processes in accordance with the Specifications on Cosmetics Production Permit\* (《化妝品生產許可工作規範》). Given the requirement for clean production, for the following reasons, it is not feasible to upgrade the Cosbe Facility without ceasing production completely:

- (i) as our production lines are located within close proximity, it is not possible for us to cease production of a particular production line for upgrading and continue production in other production lines, or upgrade part of the production line and continue production in the rest of the production line, otherwise there is a high risk that the dust and dirt from the renovation works will contaminate the other production lines and we will be unable to fulfill the relevant clean production standards; and
- (ii) our machineries are physically integrated into the infrastructure of the Cosbe Facility, for instance, some of our large emulsion mixers are two-storeyed tall and are installed across two storeys. Also, some of the machineries are connected by pipelines that are affixed to the ceiling across the factory building. The removal of certain machineries would damage the infrastructure of the building, e.g. the floors, walls, ceiling, etc. If an upgrading of the machineries of the Cosbe Facility is required, other than replacing the machineries, we will also have to restructure/reinstate the infrastructure including all pipelines, floors, walls, ceiling, etc. to complete the entire upgrade.

(c) *Production infrastructure — practical constraints*

In order to meet the increasing industry requirements on product quality and the relevant production standard requirements as discussed above, not only the machineries, but also the production infrastructure, including but not limited to the in-wall pipeline system, the clean production room renovation standard, the environmental protection infrastructure, and the fire infrastructure will need a substantial upgrade from the standard of the Cosbe Facility. Such upgrade of the production infrastructure will not be possible without the complete cessation of our production activities. Given the



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importance of the upgrade of the production infrastructure, a portion of the net proceeds from the Share Offer is earmarked for the overall renovation costs of the New Cosbe Facility.

(d) *Conclusion — Upgrading the Cosbe Facility is not commercially viable*

As explained above, the timing of order placement and delivery deadline are to a large extent customer driven, and our Group has little flexibility to adjust our own production schedule so that production can be more evenly allocated throughout the year, or reallocate some production outside peak season. Renovation and the upgrading of the Cosbe Facility will take time and we will be unable to process any orders from our customers during such period when production would have to be ceased completely as explained above. Further, any modification to the infrastructure, production lines, etc. of the Cosbe Facility also requires approval from the local bureau of China Food and Drug Administration and we may be unable to recommence production until such approval has been granted, the timing of which is out of our control. Our Directors therefore consider that it is not commercially viable for our Group to upgrade the Cosbe Facility, and setting up the New Cosbe Facility will be able to best achieve our Strategy and future plans in a manner that is least disruptive to our operations.

(vii) *Implementation of our Strategy by setting up the New Cosbe Facility*

In setting up the New Cosbe Facility, we aim to improve our production management and efficiency in terms of increasing the levels of computerisation, automation, and precision by (i) implementing new systems; (ii) purchasing new machineries and equipment and upgrading the infrastructure; and (iii) attracting and recruiting various personnel.

Our Directors consider that we possess the expertise and technical know-how to develop and manufacture non-seasonal standalone beauty products because we have been developing and producing such products during the Track Record Period, which has generated an aggregate revenue of approximately HK\$75.7 million. Our Directors confirmed that the production process of non-seasonal standalone beauty products, and seasonal gift sets and standalone beauty products are generally the same. The major difference is that non-seasonal standalone beauty products require a higher level of precision in the production process, such as in terms of timing and volume/weight of each ingredient to be added, and the temperature, pressure and mixing speed during the manufacturing process. Our Directors believe, with the implementation of the new manufacturing execution system at the New Cosbe Facility and the joining of the management engineer and technicians as detailed below, we will be able to increase the level of precision as required in the production process of non-seasonal standalone beauty products and mass produce such beauty products.

Further, we believe that by upgrading our production facility, we will be able to better control our production and respond to market trends more quickly. The expansion will also facilitate long term business development, as we believe manufacturers with sufficient production capabilities and capacities will be able to enjoy economies of scale and compete

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more successfully in the market. Further, with the upgraded production facility, we believe we will be able to meet the requirement of customers with higher standard and requirements, and in turn expand our customer base. As a result of this expansion plan, we expect our revenue to also increase correspondingly.

(a) *Implementation of new systems*

We believe it is necessary to increase the levels of computerisation, automation and precision at our production facility in order to improve and ensure the quality consistency of our beauty products and to improve our production efficiency. We are in the process of implementing the barcode system which enables us to enhance management across the production process as well as inventory control. We will also implement the anti-error system which aims to eliminate human errors in the production process. By implementing the aforementioned computer systems, it is expected that each item used in production will have a barcode to enable the computer system to check the relevant quantity required in production, and there will be an electronic scale linked to the system to ensure the item is accurately weighed and can only proceed to the next step of production at the pre-set weight. Furthermore, we will also have a separate barcode to identify each item that will enter the warehouse, including incoming raw materials, work in progress and finished products, for better tracking and retrieval of items in and out of the warehouse. We will also have a barcode for each storage space in our warehouse to enable us to instantly monitor the inventory level of our warehouse. In addition, we will implement a manufacturing execution system, of which instructions for production will be computer-controlled. With this manufacturing execution system, we can monitor and control precisely on (i) the timing and volume/weight of each ingredient to be added to the manufacturing process through computer controlled valves; and (ii) the temperature, pressure and mixing speed during the manufacturing process and collect real-time production data for future reference and improvement of product quality. We believe that as a result of the implementation of the aforementioned systems, the accuracy and efficiency of our production and inventory control can be increased and hence our production lead time is expected to shorten.

Further, our Directors understand that the supplier of the new manufacturing execution system has provided similar product to another manufacturer in the PRC which supplied to brands listed in the top 50 most valuable cosmetic brands of 2017 according to Brand Finance, a brand valuation firm. As such, our Directors are confident that upon installation of such new manufacturing execution system and the commencement of the official commercial operation of the New Cosbe Facility, our Group's manufacturing standard will be able to meet the requirements of the aforesaid top 50 most valuable cosmetic brands.

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(b) *Purchase of new machineries, equipment and system and upgrading the infrastructure*

We also plan to purchase new machineries, equipment and system, some of which will increase our levels of automation, for the quantity and types as set out below:

<u>Type</u>	<u>Quantity</u>
Compressor	13
Manufacturing execution system	1
Conveyor belt	31
Emulsion mixer	6
Filling machine	15
Glue machine	5
Lipstick production line	3
Liquid mixer	17
Powder mixer	6
Sieve machine	1

The infrastructure of the New Cosbe Facility will also be renovated with reference to the factory requirement standard of ISO 9001 and GMPC certifications, with a new ventilation system being installed and production clean-room will be built covering the areas of weighing of ingredients to packaging of finished products in order to limit the level of contamination of our products, so as to pass our quality control and customers' standard. The increased level of automation of our production facility is expected to reduce our manpower requirements as well as the chance of human error.

(c) *Attract and recruit various personnel*

To further implement our business strategies and objectives above, we will provide training to existing employees to enable them to operate the new machineries effectively and be familiar with the new systems. To efficiently integrate our production facilities, we aim to relocate some of our staff in the Cosbe Facility to the New Cosbe Facility to utilise their expertise and technical know-how in the production of beauty products and to train the new workers to speed up the learning process, so as to allow for better efficiency in managing our production process and accommodating the initial slow start-up process. We shall also recruit various personnel experienced in operating our new systems and the new machineries and equipment. We expect to recruit personnel such as production management engineer and technician to oversee the manufacturing execution system, ensure proper implementation of such system during production and repair and maintain the new systems.

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We expect the above recruitment will facilitate the smooth launch of the New Cosbe Facility.

(d) *Regulatory approval*

As advised by our PRC Legal Advisers, in relation to the renovation and establishment of the New Cosbe Facility, our Group is required to obtain the necessary approvals on environmental protection and fire safety, register the relevant lease agreements with the Shantou City Jinping Housing Management Department (汕頭市金平房屋管理所), as well as update the PRC Cosmetics Production Permit\* (中華人民共和國化妝品生產許可證) and Guangdong Province Pollutant Emission Permit\* (廣東省污染物排放許可證).

As advised by our PRC Legal Advisers, pursuant to the relevant laws and regulations, if all requisite application documents have been submitted, there is no legal impediment for Cosbe to obtain the abovementioned approvals, permits and registration, with an estimated time frame between 20 to 60 days after submission of the requisite application documents.

(e) *Estimated costs*

Set out below are the estimated capital expenditure for the renovation and establishment of the New Cosbe Facility:

	<u>HK\$'000</u>
● Overall renovation costs	11,529
● Mixing production line	8,063
● Filling production line	7,244
● Warehouse	751
● Fire safety	1,028
● Environmental protection	1,038
● Office	1,542
● Laboratory	<u>1,317</u>
Total	<u><u>32,512</u></u>

The estimated costs is expected to be financed as to approximately HK\$9.2 million by our internal funds and approximately HK\$23.3 million by net proceeds from the Share Offer.

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(f) *Estimated capacity*

The estimated monthly production capacity of the new machineries of the New Cosbe Facility is expected to be as follows:

<u>Category</u>	<u>Estimated monthly production capacity (Tonne)</u>
Colour cosmetics (Wax-based formula)	39.9
Colour cosmetics (Powder-based formula)	11.3
Toiletries (Liquid-type formula)	275.2
Toiletries (Emulsion-type formula)	139.2

We expect that the New Cosbe Facility will be equipped with new machineries of 20 and 19 production lines for mixing and filling of our beauty products, respectively.

(g) *Utilisation rate*

It is infeasible for our Company to accurately estimate the potential growth of the production volume, and the expected timeline for the New Cosbe Facility to fully utilise its production capacity. For instance, it is anticipated that the product mix of our beauty products upon commercial operations of the New Cosbe Facility will be different from that at the Cosbe Facility. This is due to the implementation of our Strategy to produce more non-seasonal beauty products and our ability to take up more purchase orders. As the weight of the beauty products varies from item to item, based on the above explanation of different product mix, we are unable to accurately translate the projected revenue growth into production volume, nor apply a growth rate to our historical production volume to accurately estimate future utilisation rate of the New Cosbe Facility.

Notwithstanding the above, our Directors consider that there will be sufficient sales demand for the New Cosbe Facility. In fact, historically our Group has been losing business opportunities due to the capacity constraint of the Cosbe Facility. For example, one of our Group's top 10 customers, Customer I, a cosmetic company founded in Los Angeles, United States which is currently a member of a world leading beauty products conglomerate operating over 30 beauty products brands, with global presence spanning 140 countries, with its parent company listed on the Paris Stock Exchange, and has approximately five years business relationship with our Group, had met with us at their office in the U.S., and enquired about our Group's production capacity, which we understand is part of their criteria in deciding whether to place further purchase orders of beauty products with us. However, our Group was unable to pursue further business opportunity because the existing production capacity of the Cosbe Facility is insufficient to cope with their expectations.

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Further, setting up a new factory requires long-term planning. It is difficult to accurately forecast the growth rate for the sales and production volume of our Group and we believe that having buffer production capacity will allow us to be better equipped to seize opportunities when they arise, as well as to avoid losing business opportunities again. In addition, it is expected with the listing status, we will be exposed to more opportunities and are able to further diversify our customer base, which will entail further sales growth. As such, we have designed the New Cosbe Facility to have excess capacity to cater for any potential future growth.

Further, the capital investment in the infrastructure and set-up costs of the New Cosbe Facility (i.e. overall renovation costs, warehouse, fire safety, environmental protection, office and laboratory) amounted to approximately HK\$17.2 million, which accounted for approximately 52.9% of the total capital expenditure of the New Cosbe Facility. In view of such fixed renovation and set-up cost when establishing the New Cosbe Facility, our Directors consider that it is a more economically sensible decision to design a production facility with higher production capacity, so as to spread out the relevant fixed costs and maximise the cost efficiency of the new production facility.

Our Directors consider that whether or not the New Cosbe Facility will be fully utilised is not a sole factor for our Group to consider when deciding to set up the New Cosbe Facility and how the production capacities at the New Cosbe Facility are designed. Our Directors have assessed the overall financial impact of the expansion plan and balancing against the considerations of (i) the expected short breakeven and payback periods (as elaborated in “(l) Breakeven and payback analyses” below); (ii) the historical loss of business opportunities due to the capacity constraint of the Cosbe Facility; (iii) the fixed renovation and set-up cost when establishing the New Cosbe Facility (as elaborated in “(k) Financial performance of our Group following the setting up of the New Cosbe Facility” below), and (iv) the fact that setting up another new factory, should the need arises again in the future, would require long-term planning and the devotion of additional management resources, it is in the interest of our Group to pursue for a higher level of production capacity for long term expansion.

(h) *Demand for non-seasonal standalone beauty products*

In July 2017, we have entered into a supply framework agreement (“**Supply Framework Agreement**”) with Customer C, one of our top five customers, with a view to establishing a long term cooperative relationship with it to support the future development of our Group following the establishment of the New Cosbe Facility. Set out below are the salient terms of the Supply Framework Agreement:

Subject matter	Subject to the New Cosbe Facility having officially commenced commercial operations, Customer C shall purchase from us such quantities of products as may be ordered by Customer C from time to time
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Term	From the date of signing of the Supply Framework Agreement and shall continue in force unless or until terminated by either party at anytime giving not less than three months' written notice to the other party (" <b>Term</b> ")
Type of product	Beauty products
Purchase order	During the Term, Customer C shall place orders with us setting out, among others, the price, payment method, quantity, quality, description of and the specifications for the products as well as the shipping terms and delivery time
Expected purchase amount	No, only a non-binding estimated purchase amount has been indicated
Pricing policy	No
Credit and payment terms	Telex transfer; 75 days payment after shipment
Termination Clause	<p>The Supply Framework Agreement may be terminated if either party serves written notice upon the other party in the event of, among others, the following circumstances:</p> <ul style="list-style-type: none"><li>(i) the other party commits any continuing or material breach of any of the provisions of the Supply Framework Agreement;</li><li>(ii) an encumbrancer takes possession or a receiver is appointed over any of the property or assets of the other party;</li><li>(iii) the other party makes any voluntary arrangement with its creditors or becomes subject to an administration order;</li><li>(iv) the other party goes into liquidation; or</li><li>(v) the other party ceases, or threatens to cease, to carry on business.</li></ul>

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While the Supply Framework Agreement does not represent a binding commitment or obligation for Customer C to purchase our beauty products, our Directors expect additional purchase orders will be placed by Customer C as a result of the Supply Framework Agreement and the generally increasing trend of industry demand for beauty products. Taking into account the above, as well as the fact that Customer C has placed orders with us for non-seasonal standalone beauty products for the 12 months ending 31 December 2017, our Directors expect there will be demand for non-seasonal standalone beauty products to support our increased production capacity arising from the New Cosbe Facility.

(i) *Rental of new production facility*

We have rented from Baoma the New Cosbe Facility Premise I, which is within close proximity to the Cosbe Facility with a total gross floor area of approximately 4,420 sq.m. since 1 December 2016, which is currently under renovation. We have also rented from Baoma the New Cosbe Facility Premise II which is adjacent to the New Cosbe Facility Premise I, with a gross floor area of approximately 11,220 sq.m., which lease term is effective from 1 November 2017. The New Cosbe Facility Premise I will be set up as the New Cosbe Facility phase 1 (“**New Cosbe Facility Phase 1**”) while the New Cosbe Facility Premise II will be set up as the New Cosbe Facility phase 2 (“**New Cosbe Facility Phase 2**”, together with New Cosbe Facility Phase 1, the “**New Cosbe Facility**”). For further details of the aforementioned leases, please refer to “Connected Transactions — Non-exempt continuing connected transactions”. As a result of the renovation and establishment of the New Cosbe Facility, the total gross floor area of the Cosbe Facility and the New Cosbe Facility will increase to approximately 22,000 sq.m. As at the Latest Practicable Date, the New Cosbe Facility Phase 1 is still undergoing renovation and in the process of being established.

(j) *Expected timeline and integration of the New Cosbe Facility with our Group’s existing operations*

The expected timeline for completion of the renovation and setting up of the different phases of the New Cosbe Facility, commencement of the pilot run of the New Cosbe Facility and commencement of official commercial operations are as follows:

<u>Phase of New Cosbe Facility</u>	<u>Completion of the renovation and setting-up work</u>	<u>Commencement of pilot run</u>	<u>Commencement of official commercial operations</u>
Phase 1	Fourth quarter of 2017	First quarter of 2018	Second quarter of 2018
Phase 2	Second quarter of 2018	Third quarter of 2018	Fourth quarter of 2018



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The New Cosbe Facility is expected to be launched in two phases. The New Cosbe Facility Phase 1 has been under renovation since 1 December 2016 and is expected to undergo pilot run in the first quarter of 2018, while the renovation work of the New Cosbe Facility Phase 2 is expected to kick off in November 2017, and is expected to undergo pilot run in the third quarter of 2018.

The pilot run period is expected to take around two months, during which we expect to test and fine tune the setting up of our production lines. Upon our Directors being satisfied with the result of the pilot run, the New Cosbe Facility will officially commence commercial operations.

Given the limited factory space of the Cosbe Facility, our Directors confirmed that not all of our existing machineries can be incorporated in the given factory space to operate concurrently. Historically, we generally assembled the appropriate production line from time to time by plugging in and/or removing certain machineries in the production line so as to produce the relevant products. As the New Cosbe Facility has a larger factory space, it is expected that six powder mixers, three liquid mixers and eight emulsion mixers in the Cosbe Facility, which are generally metallic containers with mechanic mixing equipment that are still usable will be relocated and incorporated into the New Cosbe Facility. New parts will be installed into such mixers so that they could be upgraded and be compatible with the new manufacturing execution system in a way to operate concurrently, and in turn maximise our production capacity and improve production efficiency.

As set out in “Business — Our production facility — Machineries and equipment”, the weighted average of remaining useful life of our primary machineries and equipment as at the Latest Practicable Date are approximately two years or less. As such, it is expected that after the New Cosbe Facility is up and running and that the production capacity is self-sufficient, we will gradually phase out the Cosbe Facility in the medium future. Before that, it is anticipated that the Cosbe Facility will be maintained for contingency usage to process the purchase orders of some of our existing customers or new customers with lower quality requirements, while the New Cosbe Facility is expected to process our orders from some of our existing customers including, but not limited to, non-seasonal standalone beauty products which are designed for everyday use and orders from potential new customers that have higher quality requirements, as well as provide additional capacity for our peak seasons and long-term expansion. It is expected that the New Cosbe Facility will gradually take up all the purchase orders from our customers and all of our production requirements will be fulfilled by the New Cosbe Facility. By strategically locating the New Cosbe Facility in close proximity to the Cosbe Facility, we will be able to centralise our resources and save costs. As the Cosbe Facility incurs little fixed costs and overheads given they are mostly depreciated, our Directors consider that it will not create financial burden to our Group in maintaining the Cosbe Facility for contingency usage.

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(k) *Financial performance of our Group following the setting up of the New Cosbe Facility*

In establishing the New Cosbe Facility, our Directors expect that the liquidity of our Group may be negatively affected up to 31 December 2018 primarily due to the relatively higher capital expenditure required, in the estimated total amount of approximately HK\$32.5 million.

Our Group's operating expenses, such as cost of materials, direct labour costs, depreciation expenses, rental expense and utility expenses are expected to increase following the commencement of operation of the New Cosbe Facility. Our Directors expect that the gross profit margin (after deducting cost of sales including raw materials and inventory costs and direct labour costs) of our Group's beauty products manufactured by the New Cosbe Facility will be at least similar to that of the Cosbe Facility for the year ended 31 December 2016, i.e. approximately 36% taking into consideration that there is no change in the business model of our Group, while we expect that there will be potential cost savings as a result of enhanced production efficiency of the New Cosbe Facility (i.e. increased levels of computerisation, automation and precision). We expect our Group to record an increase in utility and rental expenses for the three years ending 31 December 2019, in the sum of not exceeding HK\$1.1 million, HK\$4.3 and HK\$4.3 million, respectively, in relation to the New Cosbe Facility, as disclosed in "Connected Transactions". We do not expect any material increases in our other operating expenses, such as selling and administrative expenses and other staff costs, which are directly attributable to the New Cosbe Facility because it will share the existing resources of the Cosbe Facility as they are strategically located within proximity. Depreciation is expected to be recorded beginning at the same time of commencement of official commercial operations of the respective phases of the New Cosbe Facility, and straight-line method will be applied for the residual value of the New Cosbe Facility according to the useful life of the relevant assets. The depreciation expense of the New Cosbe Facility is estimated to be in the total amount of approximately HK\$1.1 million for the year ending 31 December 2018, based on the estimated total capital expenditure of approximately HK\$32.5 million.

It is expected to take time for our Group to attract new customers and to obtain sufficient sales orders for the New Cosbe Facility. Therefore, the financial performance of our Group in the early stage of commercial operations of the New Cosbe Facility may be adversely affected, where the sales may be insufficient to cover the aforesaid increased operating expenses.

Nonetheless, our Directors consider that taking into consideration of the financial resources available to our Group, including cash and cash equivalents on hand, our operating cash flow and the expected proceeds from the Share Offer, it is expected that our Group will have sufficient financial resources to fund the capital expenditure and the operations of the New Cosbe Facility. Following the initial stage of development of the

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New Cosbe Facility, our Directors expect that the sales will gradually increase, the New Cosbe Facility is expected to gradually generate profit and cash inflow and the profitability and liquidity of our Group would be strengthened.

(1) *Breakeven and payback analyses*

After the New Cosbe Facility is up and running and the production capacity is self-sufficient, our Group will gradually phase out the Cosbe Facility in the medium future. It is expected that the New Cosbe Facility will gradually take up all the purchase orders from our customers and all of our production requirements will be fulfilled by the New Cosbe Facility. For the purpose of the breakeven analysis only, our Directors assume that 20% of purchase orders of our Group's beauty products during the year ending 31 December 2018 will be processed by the New Cosbe Facility, 50% of the purchase orders of our Group's beauty products during the year ending 31 December 2019 will be processed by the New Cosbe Facility, and 100% of the purchase orders of our Group's beauty products during the year ending 31 December 2020 will be processed by the New Cosbe Facility.

Our Directors expect that after the commencement of the official commercial operation of the New Cosbe Facility and the successful Listing, our Group will become more competitive in the beauty products manufacturing market in the PRC, and will be able to achieve a growth rate of approximately 10% from 2019 onwards (i.e. when both phases of the New Cosbe Facility are in commercial operations) which is slightly below the growth in the size of the PRC beauty products manufacturing market for the five years ending 2021 as estimated by F&S (i.e. a CAGR of 11.9%). Our Directors consider such growth rate is achievable with the improved production capability and capacity of the New Cosbe Facility. According to the F&S Report, the China beauty products manufacturing market is highly fragmented with the top ten players only accounting for approximately 4.6% of the market in terms of revenue in 2016. Our Group only accounted for approximately 0.2% of the market share in 2016. With the enhanced production capability and capacity, our Directors are confident that our Group will be more competitive and be able to capture more market share, so as to achieve a satisfactory growth rate. Accordingly, the historical financial performance of our Group during the Track Record Period does not reflect our growth potential in the future.

Based on the aforesaid assumptions, the New Cosbe Facility is expected to be able to breakeven (i.e. income contributed by the New Cosbe Facility equals to the operating expenses incurred by the New Cosbe Facility) within one year from the commencement of official commercial operation of the New Cosbe Facility Phase 1, with the annual revenue generated from the sales of beauty products at approximately HK\$116.8 million. The payback period (i.e. the amount of time that it takes for the income contributed by the New Cosbe Facility to equal to the sum of the capital expenses and operating expenses incurred by the New Cosbe Facility) will be less than three years, with the annual revenue generated from the sale of beauty products at approximately HK\$141.4 million.

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### (2) Expansion of Hong Kong headquarters to cope with the expansion of our operations

In order to cope with our growth and our Strategy, we will expand our office space in Hong Kong and recruit more personnel. We plan to rent a new office in Kwun Tong, Hong Kong, which is expected to double the size of our current Hong Kong office. We will recruit one managing director in operations to oversee the operations of our Group in terms of sales activities, production management and general coordination work of our back office. The recruitment of a managing director is to cater for the expansion of our operations and implementing our Strategy. As at the Latest Practicable Date, our Directors have contacted recruitment agents on the managing director's vacancy, however, we have not identified any suitable candidate as the managing director. It is intended that the managing director will come on board around the fourth quarter of 2017 to prepare for the commencement of operation of Phase 1 of the New Cosbe Facility. The following are our criteria for selecting the managing director:

- Holder of bachelor's degree in marketing, business administration and/or related disciplines (while candidates with master's degree of executive business administration or business administration will be preferred);
- Over 15 years' experience in senior management roles in manufacturing or trading industry, preferably with stable working experience in reputable and/or Hong Kong listed companies and in particular, experience in companies that design, develop, manufacture and sell non-seasonal standalone beauty products;
- Extensive experience in sales and marketing operation;
- Being familiar with the business operation, trade practices and regulatory environment of manufacturing companies both in Hong Kong and PRC; and
- Being skillful in setting company goals, formulating business strategies and implementing effective plans for sizable commercial organisations.

Our Directors believe that we are able to leverage on such managing director's experience and know-how in the development and sale of non-seasonal standalone beauty products, formulating and implementing sales and marketing plans, managing production and coordinating with different departments within our Group after Listing. In addition, our Directors expect the managing director will also bring in new clients to our Group.

Furthermore, as we plan to diversify our customer base and conduct more promotional and marketing activities, we require more manpower and sales support and as such, we shall recruit approximately one senior sales manager and two senior sales officers in this regard. We will set up our internal audit function by recruiting one internal audit officer, and recruit approximately three finance and administrative staff to support our back office and to support our additional compliance and financial reporting requirements after the Listing.

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### (3) Promotional and marketing activities

After the Listing, in light of our Strategy and expansion plans, we intend to participate in exhibitions held in Hong Kong (e.g. “Cosmoprof Asia”), the PRC (e.g. “Beauty Exhibition of the PRC 中國美容博覽會” and “Luxe Pack”), the U.S. (e.g. “Cosmoprof North America — Las Vegas”) and Dubai (e.g. “Beautyworld Middle East”), with a view to globally enhance the brand awareness and market position of our Group and our products. Costs to be incurred in relation to participating in these exhibitions include rental and decoration costs of the booth, salary of the staff, and other miscellaneous expenditures (including sample preparation costs and travelling costs).

### SUSTAINABILITY OF OUR BUSINESS

For the following reasons, our Directors are of the view that our business is sustainable and the prospects of our Strategy are favourable, and that the Listing will further assist the growth of our business:

- (i) Although our revenue and sales volume decreased in the year ended 31 December 2016 compared to that in the year ended 31 December 2015, and in the four months ended 30 April 2017 as compared to the corresponding period in 2016, the gross profit margins of our Group for both beauty products and beauty bags increased in the year ended 31 December 2016, and that for beauty products for the four months ended 30 April 2017 also increased as compared to the corresponding period in 2016. In particular, revenue derived from the sale of beauty products increased by approximately 7.7% for the year ended 31 December 2016 compared to that in the year ended 31 December 2015. Revenue derived from the sale of beauty products also increased by approximately 10.0% for the four months ended 30 April 2017 as compared to the four months ended 30 April 2016.
- (ii) It can be shown from the median unit selling price of the products that in fact the unit selling price for our products did not decrease substantially. As a matter of fact, the median unit selling prices for colour cosmetics increased in 2016 as compared to 2015 and that for fragrances and toiletries remained stable with only a slight decrease for beauty bags. The average selling prices of colour cosmetics and beauty bags increased for the four months ended 30 April 2017 as compared to that for the corresponding period in 2016, while that for fragrances and toiletries remained stable. Further, by dividing the revenue of beauty products and beauty bags by the corresponding sales volume, it is noted that the average revenue per unit of beauty products sold increased from approximately HK\$10.3 in 2015 to HK\$11.6 in 2016, and from approximately HK\$5.1 to HK\$6.3 for the four months ended 30 April 2016 and 2017 respectively, while the average revenue per unit of beauty bags sold remained stable at approximately HK\$10.6 and HK\$10.1 in 2015 and 2016, respectively, but increased from approximately HK\$7.9 to HK\$13.0 for the four months ended 30 April 2016 and 2017, respectively.

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- (iii) Our target customers of non-seasonal standalone beauty products comprise our existing customers and also new customers. We have endeavoured to source more customers with purchase orders of non-seasonal standalone beauty products so that orders can be placed on a more regular basis and the production volume and utilisation rate of the New Cosbe Facility will be more evenly spread throughout the year. In targeting our existing customers for the sale of non-seasonal standalone beauty products, we believe we are able to develop a new revenue stream from existing customers which we have already established business relationships with, and devote less marketing efforts to implement our Strategy than otherwise required.
- (iv) As the management's sales focus and strategy shifted to beauty products (particularly non-seasonal standalone beauty products) and that our Company plans to implement our Strategy, coupled with the fact that: (i) as at the Latest Practicable Date, our completed sales and secured orders of non-seasonal standalone beauty products for the year ending 31 December 2017 in aggregate amounted to approximately HK\$54.5 million from a total of 10 existing customers (with an average of over three years of relationship with us as at the Latest Practicable Date); (ii) three of the 10 existing customers placed orders with us for both seasonal beauty products and non-seasonal standalone beauty products during the Track Record Period; (iii) three of the 10 existing customers are our top five customers during the Track Record Period; and (iv) the aggregate amount of such completed sales and secured orders already exceeded our total revenue derived from the sale of non-seasonal standalone beauty products for the entire financial year ended 31 December 2016 and represents an increase of approximately 103.2% compared to the revenue derived from such products for the entire financial year ended 31 December 2016. Our Directors therefore strongly believe that the prospects of our Group's business are positive and sustainable. As at the Latest Practicable Date, all orders for non-seasonal standalone beauty products we received subsequent to the Track Record Period were placed by our existing customers.

The following table sets out our completed sales and secured orders of beauty products by product type for the year ending 31 December 2017, as at the Latest Practicable Date:

	<b>Completed sales for the four months ended 30 April 2017</b>		<b>Secured orders for delivery in the eight months ending 31 December 2017</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Non-seasonal standalone beauty products	12,367	90.3	42,171	42.6
Seasonal standalone beauty products	—	—	—	—
Gift sets ( <i>Note</i> )	<u>1,322</u>	<u>9.7</u>	<u>56,815</u>	<u>57.4</u>
<b>Total</b>	<b><u>13,689</u></b>	<b><u>100.0</u></b>	<b><u>98,986</u></b>	<b><u>100.0</u></b>

*Note:* Gift sets represent seasonal beauty products gift sets.

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- (v) Our industry consultant, F&S advised that although it expected a lower growth rate of the U.S. retail sales value of beauty products of CAGR of 2.6% for the five years from 2017 to 2021 than a CAGR of 3.3% for the five years from 2011 to 2016, it is still optimistic on the overall growth of the U.S. beauty product market as evidenced by the expected continuous growth in the retail sales value of beauty products in the U.S. F&S advised that the slight slowdown in growth of the retail sales of beauty products in the U.S. is mainly due to the reduced growth of overall retailing industry, as well as the increasing maturity of the beauty products markets in the U.S. Nonetheless, F&S advised that there has not been any material adverse change and it is not expected to have any material adverse change in the business environment of the U.S. beauty products retail industry up to 2021 and the expected reduced growth rate by no means represents a downturn of the industry.
- (vi) Notwithstanding that the growth rate of the retail sales value of beauty products in the U.S., comprising both standalone items and gift sets, is expected to be lower in 2017 to 2021 compared to that in 2011 to 2016 according to the F&S Report, given that we are only able to capture a small share of such market, a modest increase in the growth of such market can already substantially contribute to our business growth. Furthermore, as our historical focus was more on the gift sets market, which only accounted for less than 10% of the general beauty products market, we are confident that we will be able to capture a greater share of the general beauty products market in the U.S. by selling more non-seasonal standalone beauty products going forward.
- (vii) With the continuous shift of management's sales focus to beauty products and tapping into the non-seasonal standalone beauty product market, our Group is expected to be able to expand its customer portfolio, which in turn is expected to drive revenue growth. Also, the plan to develop and sell more non-seasonal standalone beauty products will enable our Group to enlarge its exposure to the larger beauty products retail markets in the U.S. and the PRC, attract more beauty products brand owner customers so as to expand its customer base and to generate a more stable and recurring source of income that is less subject to seasonality.
- (viii) We have also been in discussions with potential new customers including sizeable retailers in Germany and the U.S., a renowned global end-to-end supply chain solutions provider and a leading fashion and accessories brand owner. Based on the discussions with the potential new customers, we expect that part of the orders to be placed (if any) will be non-seasonal standalone beauty products, which complement our Strategy.
- (ix) For our promotion of non-seasonal standalone beauty products, our Group has targeted not only new customers, but also those existing customers, which ordered beauty products gift sets with us. Our Directors believed that leveraging on our stable business relationship with such existing customers would serve as a stepping stone for our Group to gain exposure in the non-seasonal standalone beauty product market. Together with the New Cosbe Facility with higher production quality, our Strategy will materialise.

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## FUTURE PLANS AND USE OF PROCEEDS

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Although our potential new customers of non-seasonal standalone beauty products have not executed formal agreements nor placed confirmed orders with us as at the Latest Practicable Date, our Directors believe that there is sufficient demand for non-seasonal standalone beauty products for our existing production facility and future plans from our existing customers. Given that as at the Latest Practicable Date, the aggregate amount of completed sales and secured orders for the year ending 31 December 2017 for non-seasonal beauty products from our existing customers amount to approximately HK\$54.5 million, which has already exceeded our total revenue derived from the sale of non-seasonal standalone beauty products for the entire financial year ended 31 December 2016 of approximately HK\$26.8 million, this demonstrates that our Directors' effort on promoting non-seasonal standalone beauty products is successful and effective. Going forward, our Directors will continue to promote non-seasonal standalone beauty products to both potential new customers and existing customers to further develop our brand awareness in the non-seasonal standalone beauty product market as well as to obtain more orders in such market.

In July 2017, we have entered into a Supply Framework Agreement with Customer C, and our Directors expect additional purchase orders will be placed by Customer C as a result of the Supply Framework Agreement. Please refer to “(l) Increase our production capabilities and capacities — (vii) Implementation of our Strategy by setting up the New Cosbe Facility — (h) Demand for non-seasonal standalone beauty products” above for further details.

- (x) Furthermore, Mr. Or Naam, a founder of our Group and an executive Director, has successfully led our Group to transform from the sale of bags and gift box packaging to the design, development, manufacture and sale of beauty products, and from the manufacturer of one type of beauty products gradually to a full spectrum of beauty products covering both seasonal and non-seasonal beauty products. Our Directors believe that Mr. Or Naam and our management team (a majority of which has been with our Group for over 20 years) are able to leverage on their industry experience and connections and provide value-added services that many otherwise already established beauty products manufacturers in the market are unable to offer to customers, in sourcing new customers of non-seasonal standalone beauty products. The proposed recruitment of a managing director who has experience with companies designing, developing manufacturing and selling non-seasonal standalone beauty products is also expected to complement the strengths of our existing management team. In any event, in order to be able to better appeal to potential new customers with higher quality requirements, our Directors consider that it is of utmost importance to first upgrade our production facility so that we are equipped to meeting such potential new customers' higher requirements.



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- (xi) With the proven track record of our Group's ability to attract new customers, and the increase in the levels of computerisation, automation and precision of our manufacturing process contributed by the commencement of the formal commercial operation of the New Cosbe Facility, we expect that we will be able to attract new customers and obtain sufficient purchase orders to support our operations, taking into account the proposed expansion plan, going forward.

### REASONS FOR THE LISTING AND THE SHARE OFFER

#### Commercial rationale for the Listing

Our Directors believe that the Listing is strategically critical to the long-term growth of our Group as it will help promote our brand awareness, strengthen our competitiveness, diversify and enlarge our customer base, capture more business opportunities and provide us with additional avenues to raise capital in the long run.

Our Directors consider the Listing will enhance our Group's corporate image and reputation as well as further strengthen our market position in the beauty product industry. The listing status will help advertise our Group to existing and potential customers and suppliers, and enhance our corporate profile and credibility with the public and business partners. In particular, our Directors believe that internationally renowned beauty products brand owners tend to have a more favourable opinion in dealing with public companies with stringent corporate governance practices and well defined internal control mechanism in place. As a listed entity, customers and suppliers will have more confidence in the quality of our products, our financial strength and credibility, and transparency in operations and financial reporting. Our internal control and corporate governance practices will also be enhanced following the Listing. All of these in turn will strengthen our competitiveness, help maintain and expand our market share and result in an increase in our business performance and growth and financial return to shareholders.

The Listing will help raise staff confidence and improve our ability to recruit, motivate and retain key management personnel. The Listing will enable us to offer an equity-based incentive programme to our employees that more directly correlates to their performance with our Group's business. We would therefore be in a better position to motivate our employees with any incentive programmes that are closely aligned with the objective of creating value for our Shareholders.

Our Company will be able to diversify the risk of ownership among a larger group of Shareholders after the Listing, which is important as we continue to expand our business. Our Controlling Shareholders are not selling any Shares as part of the Share Offer, and currently have no intention to dispose of any Shares that he/she/it holds subsequent to the Share Offer and intend to enjoy the growth of our Group alongside our investors in the long run.

Following the Listing, we will have access to the capital markets, providing us additional avenues for future fundraising through the issuance of equity and debt securities for business development in the long run. Equity financing does not involve recurring interest expense and the financing process is usually simpler and quicker than negotiating bank borrowings, and therefore

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would allow our Group to react promptly to market conditions and business opportunities. Further, our Directors believe that a listing status will allow us to gain leverage in obtaining bank financing with relatively more favourable terms. Therefore, the Listing will offer us more flexibility to finance our operation.

During the Track Record Period, our Group's capital requirement was relatively conservative because we did not undergo material upgrading works of the Cosbe Facility for the past 10 years. However, in light of our strategy to increase our production capabilities and capacities, we would entail larger capital requirement, including capital expenditure and working capital for the larger scale of operation. It would place undue financial burden on our Group in terms of cashflow if we were to use all the cash on hand for growth purposes.

Our Directors consider that the use of equity financing would be a better alternative than debt financing because the financing cost of bank borrowings are usually relatively higher for private companies and bank would normally require guarantees from our Shareholders for securing the bank borrowings. Therefore, sole reliance on bank borrowings to finance our capital requirements will increase our expenses and place significant financial burden on the small group of Shareholders. This substantially hinders the development and expansion of our business. Our Directors considered that it is in the interest of our Group to maintain a combination of different financing sources and an appropriate debt-to-equity ratio.

### **Our capital requirements and reasons for the Share Offer**

Despite our seemingly high level of cash and cash equivalents of approximately HK\$31.6 million as at 30 April 2017 as compared to the estimated net proceeds from the Share Offer of approximately HK\$41.4 million (based on the mid-point of HK\$0.67 of the indicative Offer Price range), our Directors consider it necessary to maintain a relatively higher level of liquidity to meet the cash outflow requirement in relation to our purchase of raw material and production cost. It is noted that our Group has historical cost of sales of over HK\$100.0 million for each of the two years ended 31 December 2016, which translates into a theoretical average monthly cost of sales of over HK\$8.3 million. It is also expected that with the help of the Listing to enhance our Group's corporate image and reputation, we will be able to attract more orders from customers, and as a result, increase our working capital requirement on the relevant additional production cost. Further, our historical monthly cost of sales highly fluctuated which were generally higher in the third quarter of the year during the Track Record Period due to the seasonality nature of our sales of beauty products. Given that our Group's peak season generally starts in the third quarter of the year, taking 2016 as an example, by eliminating the cost of sales for the four months ended 30 April 2016, being the low season, the cost of sales for the eight months ended 31 December 2016 was approximately HK\$88.8 million which translates into a theoretical average monthly cost of sales of approximately HK\$11.1 million. Also, although the production lead time was only 60 to 90 days, and the trade receivable of our Group as at 30 April 2017 was higher than our trade payable, our Directors expected that the trade receivable turnover days will be longer than that of trade payable as demonstrated by the trend in the Track Record Period, and there is no guarantee that our Group's future cash outflow can match with the timing of our future cash inflow. Having

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considered the aforesaid cash outflow requirement, and our Group's cash and cash equivalent balance as at 31 August 2017 of approximately HK\$7.4 million, our Directors consider it is necessary to be more prudent in our cash management and to maintain our existing cash on hand to support the working capital requirement of our daily operation, while utilising the net proceeds from the Share Offer to fund our development plans.

The banking facilities obtained by our Group during the Track Record Period and up to the Latest Practicable Date were short-term overdraft and trade financing facilities. Our Directors considered such banking facilities are not suitable for providing long-term financial support for factory expansion and upgrade. In addition, our Directors understand from the banks that they will only provide long-term banking facilities to our Group for factory expansion and upgrade with material assets as collaterals and personal guarantee(s) from our Controlling Shareholder(s) prior to Listing. Since our Group has no material fixed assets available for collateral, it would require our Controlling Shareholders to pledge their own private properties for such banking facilities. This would create significant financial burden on our Controlling Shareholders. Our Directors are of the view that no healthy, sizeable and established corporation should rely heavily on the financial resources of its shareholders to fund its operations and development plans. Therefore, our Directors consider there is a genuine need to pursue the Listing in order to source additional avenues for future fundraising for business development in the long run and to raise funds through the Share Offer to finance our Group's expansion plan.

Despite the seemingly high level of cash and cash equivalents as at 30 April 2017, our Directors consider it necessary to maintain a relatively high level of liquidity to meet our Group's cash outflow requirements, on the following grounds: (a) based on our management accounts, our cash and cash equivalents only amounted to approximately HK\$7.4 million as at 31 August 2017; (b) we intend to allocate approximately 56.2% of the net proceeds from the Share Offer (i.e. approximately HK\$23.3 million) for the expansion of production facility, including upgrading production hardware, facilities and infrastructure. The net proceeds from the Share Offer only cover part of our production facility's expansion cost, the total amount of which is approximately HK\$32.5 million. Our Group's development plan also includes the expansion of Hong Kong headquarters and participating in local and global exhibitions, which require approximately a further HK\$14.5 million, thus neither the Listing expenses nor the cash on hand as at 31 August 2017 is sufficient to cover the cost of the entire expansion plan which totals approximately HK\$47.0 million; (c) the current working capital is only sufficient to accommodate the current level of operations whereby after the commencement of operation of the New Cosbe Facility, the operating cost is expected to increase along with the enlarged scale of operation, therefore, working capital requirement will accordingly increase as well; and (d) it will take time for sales volume to build up for the New Cosbe Facility to cover its fixed costs and overheads, as such we need to maintain an adequate level of cash for such costs before we can obtain sufficient sales volume to generate satisfactory cash inflow.

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In summary, the Listing will help strengthen the competitiveness of our Group, offer us more flexibility to finance our operation so as to allow us to respond to business opportunities expeditiously and differentiating us from our competitors, so as to be in a better position to seize business opportunities and secure our market position in the beauty products industry. Therefore, our Directors consider it is commercially justifiable to pursue the Listing.

### USE OF PROCEEDS

Our Directors consider that net proceeds from the Share Offer are crucial for financing our Group's business strategies. Our Directors estimate that the net proceeds from the Share Offer (after deducting the estimated expenses payable by our Group in connection with the Listing) will be approximately HK\$41.4 million based on the Offer Price of HK\$0.67 per Offer Share (being the mid-point of the indicative Offer Price range between HK\$0.65 and HK\$0.69 per Offer Share). It is currently intended that the net proceeds will be applied as follows:

- Approximately HK\$23.3 million, representing approximately 56.2% of the net proceeds will be used for upgrading production hardware, facilities and infrastructure, of which approximately HK\$8.3 million will be used for the renovation of the New Cosbe Facility, and approximately HK\$15.0 million will be used for the purchase of new machineries and equipment.
- Approximately HK\$11.0 million, representing approximately 26.7% of the net proceeds will be used for expanding the Hong Kong headquarters, of which approximately HK\$6.7 million, HK\$2.4 million and HK\$1.0 million will be salary, rental and administrative expenses, respectively, and approximately HK\$0.9 million will be used for renovation of the new office.
- Approximately HK\$3.5 million, representing approximately 8.4% of the net proceeds will be used for participating in local and global exhibitions.
- Approximately HK\$3.6 million, representing approximately 8.7% of the net proceeds will be used for additional working capital and other general corporate purpose.

## FUTURE PLANS AND USE OF PROCEEDS

We currently intend that the net proceeds of the Share Offer will be applied as follows:

	From the Latest Practicable Date to 31 December 2017	For the six months ending 30 June 2018	For the six months ending 31 December 2018	For the six months ending 30 June 2019	For the six months ending 31 December 2019	Total	Approximate percentage of total net proceeds
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	%
Upgrading production hardware, facilities and infrastructure	5,876	9,573	7,760	59	—	23,268	56.2
Expanding the Hong Kong headquarters	510	3,150	2,400	2,500	2,500	11,060	26.7
Participating in local and global exhibitions	198	589	1,012	618	1,062	3,479	8.4
General working capital	600	700	700	800	800	3,600	8.7
<b>Total</b>	<b>7,184</b>	<b>14,012</b>	<b>11,872</b>	<b>3,977</b>	<b>4,362</b>	<b>41,407</b>	<b>100.0</b>

If the Offer Price is set at HK\$0.69 per Offer Share (being the high-end of the indicative Offer Price range), the net proceeds from the Share Offer will increase to approximately HK\$43.4 million.

If the Offer Price is set at HK\$0.65 per Offer Share (being the low-end of the indicative Offer Price range), the net proceeds from the Share Offer will decrease to approximately HK\$39.4 million.

### IMPLEMENTATION PLANS

In pursuance of the business objectives set forth above, the implementation plans of our Group are set forth below for each of the six-month periods until 31 December 2019.

#### For the period from the Latest Practicable Date to 31 December 2017

Purposes	Activities
Upgrading production hardware, facilities and infrastructure	<ul style="list-style-type: none"> <li>● Undergo renovation of the New Cosbe Facility</li> <li>● Purchase, installation, and testing of approximately one manufacturing execution system, two liquid mixers, three emulsion mixers, one glue machine and one sieve machine</li> </ul>
Expanding the Hong Kong headquarters	<ul style="list-style-type: none"> <li>● Recruit approximately one managing director in operations, one senior sales manager and one internal audit officer to cope with the expansion of our Hong Kong headquarters</li> </ul>

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<u>Purposes</u>	<u>Activities</u>
Participating in local and global exhibitions	<ul style="list-style-type: none"><li>● Generally participate in one exhibition in Hong Kong</li></ul>

### For the six months ending 30 June 2018

<u>Purposes</u>	<u>Activities</u>
Upgrading production hardware, facilities and infrastructure	<ul style="list-style-type: none"><li>● Undergo renovation of the New Cosbe Facility Phase 2</li><li>● Pilot run of the New Cosbe Facility Phase 1</li><li>● Purchase, installation, and testing of one filling machine, three emulsion mixers, six powder mixers and 10 liquid mixers</li><li>● Commence formal commercial operation of the New Cosbe Facility Phase 1</li></ul>
Expanding the Hong Kong headquarters	<ul style="list-style-type: none"><li>● Rent and renovate a new office which is approximately double the size of our current office</li><li>● Costs will be incurred as rent and utility expenses for the new Hong Kong headquarters</li><li>● Costs will be incurred as remuneration payable to the three additional staff recruited for the expansion in the previous period, and recruit approximately two senior sales officers, and four finance and administrative staff after relocating to the new office</li></ul>
Participating in local and global exhibitions	<ul style="list-style-type: none"><li>● Generally participate in two exhibitions in the PRC and one exhibitions overseas</li></ul>

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## FUTURE PLANS AND USE OF PROCEEDS

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### For the six months ending 31 December 2018

<u>Purposes</u>	<u>Activities</u>
Upgrading production hardware, facilities and infrastructure	<ul style="list-style-type: none"><li>● Purchase, installation and testing of approximately three lipstick production lines, four glue machines, five liquid mixers, 13 compressors, 14 filling machines and 31 conveyor belts</li> <li>● Pilot run of the New Cosbe Facility Phase 2</li> <li>● Commence formal commercial operation of the New Cosbe Facility Phase 2</li></ul>
Expanding the Hong Kong headquarter	<ul style="list-style-type: none"><li>● Costs will be incurred as rent and utility expenses for the new Hong Kong headquarters</li> <li>● Costs will be incurred as remuneration payable to the eight additional staff recruited for the expansion in the previous period</li></ul>
Participating in local and global exhibitions	<ul style="list-style-type: none"><li>● Generally participate in one exhibition in Hong Kong and one exhibition overseas</li></ul>

### For the six months ending 30 June 2019

<u>Purposes</u>	<u>Activities</u>
Expanding the Hong Kong headquarters	<ul style="list-style-type: none"><li>● Costs will be incurred as rent and utility expenses for the new Hong Kong headquarters</li> <li>● Costs will be incurred as remuneration payable to the seven additional staff recruited for the expansion in the previous period</li></ul>
Participating in local and global exhibitions	<ul style="list-style-type: none"><li>● Generally participate in two exhibitions in the PRC and one exhibitions overseas</li></ul>

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## FUTURE PLANS AND USE OF PROCEEDS

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**For the six months ending 31 December 2019**

<u>Purposes</u>	<u>Activities</u>
Expanding the Hong Kong headquarters	<ul style="list-style-type: none"><li>● Costs will be incurred as rent and utility expenses for the new Hong Kong headquarters</li> <li>● Costs will be incurred as remuneration payable to the seven additional staff recruited for the expansion in the previous period</li></ul>
Participating in local and global exhibitions	<ul style="list-style-type: none"><li>● Generally participate in one exhibition in Hong Kong and one exhibition overseas</li></ul>

Our Directors consider that the net proceeds from the Share Offer together with the internal resources of our Group will be sufficient to finance the implementation of our Group's business plans as set out in "— Implementation plans".

Investors should note that the implementation plans are formulated on the bases and assumptions referred to in "— Bases and assumptions". These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors set out in "Risk Factors". Therefore, there is no assurance that our business plans will materialise in accordance with the estimated time frame and that our future plans will be accomplished at all.

Under such circumstances, our Directors will evaluate carefully the situations and will hold the funds as short-term deposits in authorised banks and/or financial institutions in Hong Kong until the relevant business plan materialises. Our Company will issue an appropriate announcement if there is any material change in the abovementioned use of proceeds.



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## UNDERWRITING

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### JOINT BOOKRUNNERS AND JOINT LEAD MANAGERS

Supreme China Securities Limited  
Infast Brokerage Limited  
Lego Securities Limited

### CO-MANAGER

Pacific Foundation Securities Limited

### PUBLIC OFFER UNDERWRITERS

Supreme China Securities Limited  
Infast Brokerage Limited  
Lego Securities Limited  
Pacific Foundation Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### The Public Offer

##### *Public Offer Underwriting Agreement*

Pursuant to the Public Offer Underwriting Agreement, we are offering 10,000,000 Public Offer Shares (subject to reallocation) for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms at the Offer Price.

Subject to (i) the Listing Division of the Stock Exchange granting the listing of, and permission to deal in, our Shares (including the additional Shares to be issued pursuant to the Capitalisation Issue, and the exercise of the options which may be granted under the Share Option Scheme); and (ii) to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have severally and not jointly agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

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## UNDERWRITING

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### *Grounds for termination*

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares are subject to termination if before 8:00 a.m. on the Listing Date:

- (A) there shall develop, occur, exist or come into effect:
- (1) any change or prospective change (whether or not permanent) in the business, earnings, operations, financial position, trading position, or prospects of our Group, or any change in capital stock or long-term debt of our Company or any other member of our Group, which (in any such case) is not set forth or contemplated in this prospectus; or
  - (2) any change or development involving a prospective change or development, or any event or series of events resulting or representing or may result in any change or development involving a prospective change or deterioration (whether or not permanent) in local, national, regional or international financial, political, military, industrial, economic, legal framework, regulatory, fiscal, currency, credit or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, and interbank markets) in or affecting any of Hong Kong, the BVI, the Cayman Islands, the United States, the United Kingdom, any member of the European Union, the PRC, Taiwan or any other jurisdictions where any member of our Group is incorporated (collectively, the “**Relevant Jurisdictions**”); or
  - (3) any deterioration of any pre-existing local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions in or affecting any of the Relevant Jurisdictions; or
  - (4) any new law or change (whether or not forming part of a series of changes) or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or governmental authority in or affecting any of the Relevant Jurisdictions; or
  - (5) a change or development or event involving a prospective change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations in or affecting any of the Relevant Jurisdictions adversely affecting an investment in shares; or
  - (6) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting any of the Relevant Jurisdictions; or

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## UNDERWRITING

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- (7) any event, act or omission which gives rise to or may give rise to any liability of any of our Company, our executive Directors and our Controlling Shareholders pursuant to the indemnity contained in the Public Offer Underwriting Agreement; or
- (8) the imposition or declaration of (i) any suspension or restriction on dealings in shares or securities generally on the Main Board of the Stock Exchange, the Growth Enterprise Market of the Stock Exchange, or any other major international stock exchange or any minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any regulatory or governmental authority, or (ii) any moratorium on commercial banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
- (9) the imposition of economic, political or other sanctions, in whatever form, directly or indirectly, in or affecting any of the Relevant Jurisdictions; or
- (10) any event, or series of events, in the nature of force majeure (including without limitation, any acts of God, acts of government, declaration of a national or international emergency or war, acts or threat of war, calamity, crisis, economic sanction, riot, public disorder, civil commotion, fire, drought, flooding, severe snow or hail storms, explosion, earthquake, hurricanes, tornadoes, volcanic eruption, epidemic (including but not limited to severe acute respiratory syndrome or avian flu), pandemic, outbreak of disease, radiation or chemical contaminations, terrorism, strike or lockout) in or affecting any of the Relevant Jurisdictions; or
- (11) any change or development or event involving a prospective change, or a materialisation of, any of the risks set out in “Risk Factors”; or
- (12) any change in the system under which the value of RMB or HKD or is linked to that of the USD or a material devaluation of HKD against any foreign currency; or
- (13) any demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (14) save as disclosed in this prospectus, a contravention by any member of our Group of the GEM Listing Rules or applicable laws; or
- (15) a prohibition of our Company for whatever reason from offering, allotting, issuing or selling any of the Shares pursuant to the terms of the Share Offer; or
- (16) non-compliance of any statement or disclosure of this prospectus or Application Forms or any aspect of the Share Offer with the GEM Listing Rules or any other applicable law; or

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## UNDERWRITING

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- (17) other than with the prior approval of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) (such approval not to be unreasonably withheld or delayed) the issue or requirement to issue by our Company of a supplementary prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) pursuant to the Companies (WUMP) Ordinance or the GEM Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (18) an order is made or a petition is presented for the winding-up or liquidation of any member of our Group or any material member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any material member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (19) any litigation or claim of any third party being instigated against any member of our Group; or
- (20) a Director being charged with an indictable offence or prohibited by operation of law or is otherwise disqualified from being a director or taking part in the management of a company; or
- (21) the chairman, the chief executive officer, the director of finance and administration, the director of sales and marketing, or the group financial controller of the Company vacating his or her office; or
- (22) the commencement by any governmental, regulatory, political or judicial body or organisation of any action against a Director or any member of our Group or an announcement by any governmental, regulatory, political or judicial body or organisation that it intends to take any such action; or
- (23) our Company withdraws any of this prospectus or the Application Forms (and/or any other documents used in connection with the contemplated subscription of the Public Offer Shares); or
- (24) any person (other than any of the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in any of this prospectus or the Application Forms and/or any other documents used in connection with the contemplated subscription of the Offer Shares, or to the issue of any such documents,

which, in the sole and absolute opinion of SCS (for itself and on behalf of the other Public Offer Underwriters):

- (a) has or will or may have a material adverse effect on the business, financial, trading or other condition or prospects of any member of our Group or our Group taken as a whole and/or to any present or prospective shareholder in its capacity as such; or

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## UNDERWRITING

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- (b) has or will or may have a material adverse effect on the success of the Public Offer, the Placing or the level of Offer Shares being applied for or accepted or the distribution of the Offer Shares; or
  - (c) is or will or may make it impracticable, inadvisable, inexpedient or not commercially viable (i) for any part of the Public Offer Underwriting Agreement, the Placing Underwriting Agreement, the Public Offer, the Placing and/or the Share Offer to be performed or implemented as envisaged or (ii) to proceed with or to market the Public Offer, the Placing and/or the Share Offer on the terms and in the manner contemplated in this prospectus; or
- (B) any of the Sole Sponsor or any of the Public Offer Underwriters shall become aware of the fact that, or have cause to believe that:
- (1) any of the warranties or undertakings given by our Company, our executive Directors and/or our Controlling Shareholders under the Public Offer Underwriting Agreement is untrue, inaccurate, misleading or breached in any respect when given or as repeated as determined by the Sole Sponsor and the Joint Bookrunners in their sole and absolute discretion or has been declared or determined by any court or governmental authorities to be illegal, invalid or unenforceable; or
  - (2) any statement contained in this prospectus, the Application Forms, the formal notice or any announcements or documents issued by our Company in respect of the Public Offer, the Placing and/or the Share Offer was or is untrue, incorrect or misleading in any material respect, or any matter arises or is discovered which would, if this prospectus, the Application Forms, the formal notice and any announcements or documents issued by our Company in respect of the Public Offer, the Placing and/or the Share Offer were to be issued at that time, constitute an omission therefrom as determined by the Joint Bookrunners in their sole and absolute discretion; or
  - (3) any forecasts, expressions of opinion, intention or expectation expressed in this prospectus, at the Application Forms, formal notice and/or any announcements or documents issued by our Company in connection with the Public Offer, the Placing and/or the Share Offer (including any supplement or amendment thereto) are not fair and honest nor based on reasonable assumptions; or
  - (4) there has been a breach on the part of any of our Company, our executive Directors and/or our Controlling Shareholders of any of the provisions of the Public Offer Underwriting Agreement or the Placing Underwriting Agreement as determined by the Joint Bookrunners in their sole and absolute discretion,

then SCS (for itself and on behalf of the Public Offer Underwriters) may in its sole and absolute discretion terminate the Public Offer Underwriting Agreement with immediate effect by written notice to our Company.

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## UNDERWRITING

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### Undertakings pursuant to the Public Offer Underwriting Agreement

#### *Undertakings by our Company*

Except pursuant to the Capitalisation Issue, the Share Offer and the options that may be granted under the Share Option Scheme, during the period commencing on the date of this prospectus and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), our Company has undertaken to the Sole Sponsor, the Joint Bookrunners, and the Public Offer Underwriters not to, and to procure each other member of our Group not to, without the prior written consent of the Joint Bookrunners (on behalf of the Public Offer Underwriters) and the Sole Sponsor (such consent not to be unreasonably withheld or delayed), and subject always to the provisions of the GEM Listing Rules:

- (1) offer, allot, issue or sell, or agree to allot, issue or sell, hedge, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates), either directly or indirectly, conditionally or unconditionally, any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or any securities convertible into or exchangeable for such Shares (or any interest in any Shares or any voting or other right attaching to any Shares); or
- (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or such securities; or
- (3) enter into any transaction with the same economic effect as any transaction described in (1) or (2) above; or
- (4) offer or agree to do any of the foregoing transactions and publicly disclose any intention to effect such transaction,

in each case, whether any of the foregoing transactions is to be settled by delivery of Shares or such other securities, in cash or otherwise. In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), our Company enters into any of the transactions described above, or offers to or agrees to or announces any intention to effect any such transaction, as the case may be, our Company shall take all steps to ensure that any such act, if done, will not create a disorderly or false market for any Shares or other securities of our Company or any interest therein. Each of our Controlling Shareholders undertakes to the Sole Sponsor, each of the Joint Bookrunners and each of the Public Offer Underwriters to procure our Company to comply with the undertakings above.

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## UNDERWRITING

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### *Undertakings by our Controlling Shareholders*

Each of our Controlling Shareholders has also undertaken to our Company, the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters that:

- (1) he/she/it will not, without the prior written consent of the Joint Bookrunners (on behalf of the Public Offer Underwriters), and will procure that none of his/her/its associates (as defined in the GEM Listing Rules) or companies controlled by him/her/it or any nominee or trustee holding in trust for him/her/it shall, directly or indirectly, (i) offer, pledge, sell, mortgage, assign, charge, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right, or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital or other securities of our Company or any interest therein, beneficially owned by him/her/it or through such associates, companies, nominees or trustee as of the Listing Date (including, without limitation, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of our Company or any interest therein) immediately following the completion of the Share Offer, (ii) enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of subscription or ownership of any such share capital or securities of our Company or any interest therein, (iii) enter into any transaction with the same economic effect as any transaction described in (i) and (ii) above or (iv) offer to or agree to contract to, or publicly announce any intention to enter into, any of the foregoing transactions described in (i) through (iii) above whether any of the foregoing transactions described in (i), (ii) or (iii) above is to be settled by delivery of share capital or such other securities, in cash or otherwise, at any time during the First Six-Month Period;
- (2) he/she/it will not, and will procure that such associate, companies, nominee or trustee will not, without the prior written consent of the Joint Bookrunners, dispose of or otherwise create any options, rights, interests or encumbrances in respect of any Shares, or any interest therein at any time during the Second Six Month Period, such that immediately following such disposal or upon exercise or enforcement of such options, rights, interests or encumbrances shall result in any of our Controlling Shareholders, directly or indirectly, ceasing to be a controlling shareholder (as defined in the GEM Listing Rules) of our Company at any time during the Second Six Month Period; and
- (3) he/she/it shall take all steps to ensure if he/she/it enters into any of such transactions, or offers to or agrees to or announces any intention to effect any such transaction, he/she/it will not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

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## UNDERWRITING

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### **The Placing**

#### *Placing Underwriting Agreement*

In connection with the Placing, it is expected that our Company will enter into the Placing Underwriting Agreement with, among others, the Placing Underwriters, on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement and on the additional terms described below.

It is expected that, pursuant to the Placing Underwriting Agreement, our Company, our executive Directors and our Controlling Shareholders will give undertakings similar to those given pursuant to the Public Offer Underwriting Agreement, as described in “— Underwriting Arrangements and Expenses — The Public Offer — Undertakings pursuant to the Public Offer Underwriting Agreement”.

It is expected that each of our Controlling Shareholders will undertake to the Placing Underwriters not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of our Shares held by them in our Company for a period similar to that given by them pursuant to the Public Offer Underwriting Agreement as described in “— Underwriting Arrangements and Expenses — The Public Offer — Undertakings Pursuant to the Public Offer Underwriting Agreement”.

### **Underwriting Commission and Expenses**

According to the Public Offer Underwriting Agreement, the Public Offer Underwriters will receive an underwriting commission of 4.19% of the aggregate Offer Price payable for the Public Offer Shares initially offered under the Public Offer. For the unsubscribed Public Offer Shares reallocated to the Placing, we will pay a placing commission at a rate applicable to the Placing and such commission will be paid to the Placing Underwriters and not the Public Offer Underwriters. The Placing Underwriters are expected to receive similar underwriting commission on the aggregate Offer Price payable for the Placing Shares subject to the terms and conditions of the Placing Underwriting Agreement.

The aggregate commissions and fees (exclusive of any discretionary incentive fees), including the Stock Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Share Offer, which are currently estimated to be approximately HK\$25.6 million in aggregate (based on an Offer Price of HK\$0.67 per Offer Share, being the mid-point of the indicative Offer Price range) are to be borne by our Company.



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## UNDERWRITING

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### UNDERTAKINGS TO THE STOCK EXCHANGE UNDER THE GEM LISTING RULES

#### Undertakings by our Company

Pursuant to Rule 17.29 of the GEM Listing Rules, we have undertaken to the Stock Exchange that we will not issue any further Shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 17.29 of the GEM Listing Rules.

#### Undertakings by our Controlling Shareholders

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and our Company that he/she/it shall not and shall procure that the relevant registered holder(s) (if any) shall not:

- (i) save as provided in Rule 13.18 of the GEM Listing Rules, in the period commencing on the date by reference to which disclosure of his/hers/its shareholding is made in this prospectus and ending on the expiry of the First Six-Month Period, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she/it is shown by this prospectus to be the beneficial owner (as defined in Rule 13.16A(2) of the GEM Listing Rules) (the “**Relevant Securities**”); and
- (ii) save as provided in Rule 13.18 of the GEM Listing Rules, in the period of six months commencing from the Second Six-Month Period, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, our Controlling Shareholders would cease to be a controlling shareholder (as defined in the GEM Listing Rules) of our Company.

In addition, each of our Controlling Shareholders has undertaken to the Stock Exchange and our Company that he/she/it will comply with the following requirements:

- (i) in the event that he/she/it pledges or charges any direct or indirect interest in the Relevant Securities in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)), as security for a bona fide commercial loan or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the First Six-Month Period and the Second Six-Month Period, he/she/it must inform our Company immediately thereafter, disclosing the details specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and

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## **UNDERWRITING**

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- (ii) having pledged or charged any interest in the Shares under (a) above, he/she/it must inform our Company immediately in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of Shares affected.

### **UNDERWRITERS' INTERESTS IN OUR COMPANY**

Save for their interests and obligations under the Underwriting Agreements or as otherwise disclosed in this prospectus, none of the Underwriters owns any shares or securities in our Company or any other member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares or securities in our Company or any member of our Group.

### **SPONSOR'S INDEPENDENCE**

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 6A.07 of the GEM Listing Rules.

### **INDEMNITY**

We have undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless each of the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters (for themselves and on trust for its directors, officers, employees, agents, assignees and affiliates) from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach by us of the Public Offer Underwriting Agreement.

### **RESTRICTIONS ON THE OFFER SHARES**

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### THE SHARE OFFER

This prospectus is published in connection with the Public Offer as part of the Share Offer. The Share Offer comprises:

- (a) the Public Offer of 10,000,000 new Shares (subject to reallocation as mentioned below) for subscription by the public in Hong Kong as described in “— The Public Offer”; and
- (b) the Placing of an aggregate of 90,000,000 new Shares (subject to reallocation as mentioned below) outside the United States (including to professional, institutional and other investors anticipated to have a sizeable demand for the Offer Shares in Hong Kong) in offshore transactions in reliance on Regulation S, as described below in “— The Placing”.

Investors may apply for Offer Shares under the Public Offer or apply for or indicate an interest for Offer Shares under the Placing, but may not do both.

The 100,000,000 Offer Shares in the Share Offer will represent 25% of the total issued share capital of our Company immediately after completion of the Share Offer, without taking into account the exercise of any option which may be granted under the Share Option Scheme.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Public Offer.

### THE PUBLIC OFFER

#### Number of Shares initially offered

We are initially offering 10,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Shares initially available under the Share Offer. Subject to the reallocation of Shares between the Public Offer and the Placing, the Public Offer Shares will represent approximately 2.5% of the total issued share capital of our Company immediately following the completion of the Share Offer. The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Public Offer is subject to the conditions as set out in “— Conditions of the Public Offer”.

#### Allocation

Allocation of Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Such allocation

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

### **Reallocation**

The allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation. A clawback mechanism will be put in place, which would have the effect of increasing the number of Offer Shares under the Public Offer to a certain percentage of the total number of Offer Shares offered in the Share Offer if certain prescribed total demand levels are reached. In the event of over-applications in the Public Offer, the Joint Bookrunners shall apply a clawback mechanism following the closing of the application lists on the following basis:

- (a) if the number of Public Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Public Offer, then Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available for subscription under the Public Offer will be 30,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available for subscription under the Share Offer;
- (b) if the number of Public Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Public Offer, then Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available for subscription under the Public Offer will be 40,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available for subscription under the Share Offer; and
- (c) if the number of Public Offer Shares validly applied for under the Public Offer represents 100 times or more the number of Offer Shares initially available for subscription under the Public Offer, then Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available for subscription under the Public Offer will be 50,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available for subscription under the Share Offer.

If the Public Offer is not fully subscribed for, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing in such proportions as the Joint Bookrunners consider appropriate. Conversely, the Joint Bookrunners may at their sole discretion reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer, regardless of whether any reallocation is triggered.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### **Applications**

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application submitted by him or her or it that he or she or it and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the Placing.

Applicants under the Public Offer are required to pay, on application, the maximum price of HK\$0.69 per Offer Share in addition to the brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable on each Offer Share, amounting to a total of HK\$3,484.76 per board lot of 5,000 Shares. If the Offer Price, as finally determined in the manner described in “— Price Determination of the Share Offer”, is less than the maximum price of HK\$0.69 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in “How to Apply for the Public Offer Shares”.

### **THE PLACING**

#### **Number of Offer Shares offered**

The Placing will consist of an initial offering of 90,000,000 Offer Shares, representing 90% of the total number of Offer Shares initially available under the Share Offer and approximately 22.5% of the total issued share capital immediately after completion of the Share Offer. The Placing will be offered by us to professional, institutional and other investors anticipated to have a sizeable demand for the Offer Shares in Hong Kong.

#### **Allocation**

The Placing will include selective marketing of the Placing Shares to selected professional, institutional and other investors anticipated to have a sizeable demand for the Placing Shares in Hong Kong. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of the Placing Shares pursuant to the Placing will be effected in accordance with the “book-building” process described in “— Price Determination of the Share Offer” and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares,

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

The Joint Bookrunners (for themselves and on behalf of the other Underwriters) may require any investor who has been offered Placing Shares under the Placing, and who has made an application under the Public Offer to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application of the Public Offer Shares under the Public Offer.

### **Reallocation**

The total number of Offer Shares to be issued pursuant to the Placing may change as a result of the clawback arrangement as described in “— The Public Offer — Reallocation” and/or any reallocation of unsubscribed Offer Shares originally included in the Public Offer.

### **Price Determination of the Share Offer**

The Placing Underwriters will be soliciting from prospective investors’ indications of interest in acquiring Offer Shares in the Placing. Prospective investors will be required to specify the number of the Placing Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Public Offer.

Pricing for the Offer Shares for the purpose of the various offerings under the Share Offer will be fixed on the Price Determination Date, which is expected to be on or about Wednesday, 18 October 2017, and in any event on or before Wednesday, 25 October 2017, by agreement between SCS (for itself and on behalf of the other Underwriters), and our Company and the number of Offer Shares to be allocated or sold under various offerings will be determined shortly thereafter. If for any reason, the Offer Price is not agreed by Wednesday, 25 October 2017 between our Company and SCS (for itself and on behalf of the other Underwriters), the Share Offer will not proceed and will lapse.

The Offer Price will not be more than HK\$0.69 per Share and is expected to be not less than HK\$0.65 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

SCS (for itself and on behalf of the other Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Share Offer and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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the Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer, cause there to be published on the website of our Company at [www.takbogroup.com](http://www.takbogroup.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) a notice of the reduction and to be issued a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range, extend the period under which the Public Offer was opened for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and give potential investors who had applied for the Public Offer Shares the right to withdraw their applications under the Public Offer. Upon issue of such a notice and a supplemental prospectus, the number of Offer Shares offered in the Share Offer and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon SCS (for itself and on behalf of the other Underwriters) and our Company, will be fixed within such revised offer price range. Such notice and supplemental prospectus will include confirmation or revision, as appropriate, of the working capital statement and the Share Offer statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. Before submitting applications for the Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer. In the event there is a reduction in the Offer Shares and/or indicative Offer Price range, if the applicants have already submitted an application for the Public Offer Shares before the last day for lodging applications under the Public Offer, they will be allowed to subsequently withdraw their applications. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and SCS (for itself and on behalf of the other Underwriters) , will under no circumstances be set outside the indicative Offer Price range as stated in this prospectus.

The net proceeds of the Share Offer accruing to our Company (after deduction of underwriting fees and estimated expenses payable by our Company in relation to the Share Offer) are estimated to be approximately HK\$41.4 million, assuming an Offer Price per Share of HK\$0.67 (being the mid-point of the stated indicative Offer Price range). See “Future Plans and Use of Proceeds” for details.

The final Offer Price, the indications of interest in the Share Offer, the results of applications and the basis of allotment of the Public Offer Shares available under the Public Offer, are expected to be announced on Thursday, 26 October 2017 on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of our Company at [www.takbogroup.com](http://www.takbogroup.com).

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### UNDERWRITING AGREEMENTS

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement and is subject to, among other conditions, us and SCS (for itself and on behalf of the other Underwriters) agreeing on the Offer Price on the Price Determination Date.

Our Company, our Controlling Shareholders, the Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Placing Underwriters expect to enter into the Placing Underwriting Agreement relating to the Placing on or around the Price Determination Date. These underwriting arrangements, and the respective Underwriting Agreements, are summarised in the section headed “Underwriting”.

### THE SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made to enable the Shares to be admitted into the CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### CONDITIONS OF THE PUBLIC OFFER

Acceptance of all applications for the Public Offer Shares pursuant to the Public Offer will be conditional on:

- (a) the Listing Division of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as described in the prospectus;
- (b) the Offer Price having been fixed on or about the Price Determination Date;
- (c) the execution and delivery of the Placing Underwriting Agreement on or about the Price Determination Date; and
- (d) the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement and the Placing Underwriters under the Placing Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with its terms, on or before the dates and times specified in the Placing Underwriting Agreement.



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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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If, for any reason, the Offer Price is not agreed between our Company and SCS (for itself and on behalf of the other Underwriters), or the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.takbogroup.com](http://www.takbogroup.com) on the next day following such lapse. In such an event, all application monies will be returned, without interest, on the terms set out in “How to Apply for the Public Offer Shares — 12. Refund of Application Monies”. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Shares are expected to be issued on Thursday, 26 October 2017 but will only become valid certificates of title at 8:00 a.m. on Friday, 27 October 2017 provided that (i) the Share Offer has become unconditional in all respects and (ii) the right of termination as described in “Underwriting — Underwriting Arrangements and Expenses — Public Offer Underwriting Agreement — Grounds for termination” has not been exercised.

### DEALINGS

Assuming that the Share Offer becomes unconditional before 8:00 a.m. in Hong Kong on Friday, 27 October 2017, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 27 October 2017.

The Shares will be traded in board lots of 5,000 Shares each. The stock code of the Shares is 8436.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### 1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Sponsor or the Joint Bookrunners may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four for the Public Offer Shares.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the GEM Listing Rules) of any of the above;
- a connected person (as defined in the GEM Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; or
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

### 3. APPLYING FOR PUBLIC OFFER SHARES

#### Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. on Friday, 13 October 2017 until 12:00 noon on Wednesday, 18 October 2017, from the following locations:

- (i) Supreme China Securities Limited, Suite 2701-2, 27/F., Everbright Centre, 108 Gloucester Road, Wanchai, Hong Kong;
- (ii) Infast Brokerage Limited, 18th Floor, No. 8 Lyndhurst Terrace, Central, Hong Kong;
- (iii) Lego Securities Limited, Room 804, 8th Floor, Jubilee Centre, 46 Gloucester Road, Wanchai, Hong Kong;
- (iv) Pacific Foundation Securities Limited, 11th Floor, New World Tower II, 16-18 Queen's Road Central, Hong Kong; or

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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(v) any of the following branches of The Bank of East Asia, Limited:

<u>District</u>	<u>Branch Name</u>	<u>Address</u>
<b>Hong Kong Island</b>	Main Branch	10 Des Voeux Road Central, Central
	North Point Branch	326–328 King’s Road, North Point
<b>Kowloon</b>	East Tsim Sha Tsui Branch	Shop G3–G5, G/F, East Ocean Centre, 98 Granville Road, Tsim Sha Tsui
<b>New Territories</b>	Shatin Plaza Branch	Shop 3–4, Level 1, Shatin Plaza, Shatin

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 13 October 2017 until 12:00 noon on Wednesday, 18 October 2017 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

### **Time for Lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker’s cashier order attached and marked payable to “The Bank of East Asia (Nominees) Limited — Takbo Group Public Offer” for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

**Friday, 13 October 2017 — 9:00 a.m. to 5:00 p.m.**  
**Saturday, 14 October 2017 — 9:00 a.m. to 1:00 p.m.**  
**Monday, 16 October 2017 — 9:00 a.m. to 5:00 p.m.**  
**Tuesday, 17 October 2017 — 9:00 a.m. to 5:00 p.m.**  
**Wednesday, 18 October 2017 — 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 18 October 2017, the last application day or such later time as described in the paragraph headed “— 9. Effect of bad weather on the opening of the applications lists”.

#### **4. TERMS AND CONDITIONS OF AN APPLICATION**

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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By submitting an Application Form, among other things, (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person of whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Bookrunners (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Law, the Companies (WUMP) Ordinance, the Companies Ordinance and the Memorandum and Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### Additional Instructions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

### 5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

#### General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited  
Customer Service Center  
1/F, One & Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Joint Bookrunners and our Hong Kong Branch Share Registrar.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Public Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
  - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;



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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Memorandum and Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### **Effect of Giving electronic application instructions to HKSCC via CCASS**

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 5,000 Public Offer Shares. Instructions for more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

### Time for Inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Friday, 13 October 2017 — 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Monday, 16 October 2017 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Tuesday, 17 October 2017 — 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Wednesday, 18 October 2017 — 8:00 a.m.<sup>(1)</sup> to 12:00 noon**

*Note:*

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 13 October 2017 until 12:00 noon on Wednesday, 18 October 2017 (24 hours daily, except from 3:00 a.m. on Saturday, 14 October 2017 until 7:00 a.m. on Sunday, 15 October 2017 and on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, 18 October 2017, the last application day or such later time as described in “— 9. Effect of bad weather on the opening of the application lists”.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 6. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 18 October 2017.

## 7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 8. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 5,000 Public Offer Shares. Each application or **electronic application instructions** in respect of more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure and Conditions of the Share Offer”.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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### 9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 18 October 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, 18 October 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in “Expected Timetable”, an announcement will be made in such event.

### 10. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Thursday, 26 October 2017.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.takbogroup.com](http://www.takbogroup.com) by no later than 9:00 a.m. on Thursday, 26 October 2017;
- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, 26 October 2017 to 12:00 midnight on Wednesday, 1 November 2017;
- by telephone enquiry line by calling **(852) 3691 8488** between 9:00 a.m. and 6:00 p.m. from Thursday, 26 October 2017 to Tuesday, 31 October 2017 on a business day;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 26 October 2017 to Monday, 30 October 2017 at the receiving bank’s designated branches and sub-branches.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in “Structure and Conditions of the Share Offer”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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**(ii) If our Company or our agents exercise their discretion to reject your application:**

Our Company, the Joint Bookrunners, and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Public Offer Shares is void:**

The allotment of Public Offer Shares will be void if the Listing Division does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Division notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Bookrunners believe(s) that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 100% of the Public Offer Shares initially offered under the Public Offer.

## 12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$0.69 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer set out in “Structure and Conditions of the Share Offer — The Public Offer — Conditions of the Public Offer” are not fulfilled or if any application is revoked, the application



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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 26 October 2017.

### 13. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, 26 October 2017. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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Share certificates will only become valid at 8:00 a.m. on Friday, 27 October 2017 provided that the Share Offer has become unconditional and the right of termination described in “Underwriting” has not been exercised. Investors who trade Shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### **(i) *If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 26 October 2017 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 26 October 2017 by ordinary post and at your own risk.

#### **(ii) *If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 26 October 2017 by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant’s stock account as stated in your Application Form on Thursday, 26 October 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Public Offer shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "— 10. Publication of results". You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 26 October 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### **(iii) *If you apply via electronic application instructions to HKSCC***

#### *Allocation of Public Offer Shares*

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

#### *Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 26 October 2017, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in "— 10. Publication of results" on Thursday, 26 October 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 26 October 2017 or such other date as determined by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 26 October 2017. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 26 October 2017.

### 14. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

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



羅兵咸永道

**ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF TABKO GROUP HOLDINGS LIMITED AND LEGO CORPORATE FINANCE LIMITED**

**Introduction**

We report on the historical financial information of Takbo Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-57, which comprises the company statement of financial position as at 30 April 2017, the Group's combined statements of financial position as at 31 December 2015, 2016 and 30 April 2017, and the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-57 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 13 October 2017 (the "Prospectus") in connection with the public offer and placing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

**Directors' responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

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*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

**Reporting accountant's responsibility**

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

**Opinion**

In our opinion the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 30 April 2017 and the combined financial position of the Group as at 31 December 2015, 2016 and 30 April 2017 and of its combined financial performance and its combined cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

**Review of stub period comparative financial information**

We have reviewed the stub period comparative financial information of the Group which comprises the combined income statement, combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows for the four months ended 30 April 2016 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information

based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

*Adjustments*

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

*Dividends*

We refer to Note 33 to the Historical Financial Information which states that no dividends have been paid by Takbo Group Holdings Limited in respect of the Track Record Period.

*No statutory financial statements for the Company*

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

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong

13 October 2017

## I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

## Preparation of Historical Financial Information

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

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA (“**Underlying Financial Statements**”).

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

## COMBINED INCOME STATEMENTS

	Note	Year ended 31 December		Four months ended 30 April	
		2015	2016	2016	2017
		HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Revenue	6	170,807	165,098	25,397	24,030
Cost of sales	9	(119,583)	(104,698)	(15,925)	(14,822)
Gross profit		51,224	60,400	9,472	9,208
Other income	7	—	234	125	10
Other gains, net	8	1,828	1,191	91	231
Administrative expenses	9	(23,679)	(29,475)	(7,367)	(16,553)
Selling expenses	9	(13,302)	(15,077)	(2,705)	(2,258)
<b>Operating profit/(loss)</b>		16,071	17,273	(384)	(9,362)
Finance income	12	39	68	33	23
Finance costs	12	(298)	(211)	(85)	(40)
Finance costs, net	12	(259)	(143)	(52)	(17)
<b>Profit/(loss) before income tax</b>		15,812	17,130	(436)	(9,379)
Income tax (expense)/credit	13	(2,929)	(3,470)	(8)	121
<b>Profit/(loss) for the year/period attributable to owners of the Company</b>		<u>12,883</u>	<u>13,660</u>	<u>(444)</u>	<u>(9,258)</u>
Earnings/(loss) per share	14	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>



## COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Profit/(loss) for the year/period	12,883	13,660	(444)	(9,258)
Other comprehensive loss:				
<i>Item that may be reclassified to profit or loss</i>				
Currency translation differences	—	(1,299)	(1,299)	(667)
Other comprehensive loss for the year/period	—	(1,299)	(1,299)	(667)
Total comprehensive income/(loss) for the year/ period	<u>12,883</u>	<u>12,361</u>	<u>(1,743)</u>	<u>(9,925)</u>
Total comprehensive income/(loss) attributable to owners of the Company	<u>12,883</u>	<u>12,361</u>	<u>(1,743)</u>	<u>(9,925)</u>

## COMBINED STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December		As at
		2015	2016	30 April
		HK\$'000	HK\$'000	2017
				HK\$'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	15	5,669	6,046	8,018
Intangible asset	16	251	164	137
Prepayments	20	—	—	2,213
Deferred income tax assets	27	498	696	847
		<u>6,418</u>	<u>6,906</u>	<u>11,215</u>
<b>Current assets</b>				
Inventories	18	1,267	6,273	8,851
Trade receivables	19	23,200	12,546	18,382
Prepayments, deposits and other receivables	20	7,030	7,509	9,257
Amounts due from related parties	32	74,081	73,671	11
Financial assets at fair value through profit or loss	28	4,438	—	112
Current income tax recoverables		53	—	—
Cash and cash equivalents	21	11,025	41,054	31,591
		<u>121,094</u>	<u>141,053</u>	<u>68,204</u>
<b>Total assets</b>		<u>127,512</u>	<u>147,959</u>	<u>79,419</u>
<b>EQUITY</b>				
<b>Equity attributable to owners of the Company</b>				
Combined capital	22	10	10	10
Other reserves	23	3,783	2,651	1,984
Retained earnings		65,145	78,638	60,440
<b>Total equity</b>		<u>68,938</u>	<u>81,299</u>	<u>62,434</u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Provision	25	403	403	393
<b>Current liabilities</b>				
Trade payables	24	4,625	4,741	6,722
Accruals, provisions and other payables	25	2,444	3,426	9,502
Amounts due to related parties	32	38,906	50,798	252
Current income tax liabilities		142	332	116
Bank overdraft and borrowings	26	12,054	6,960	—
		<u>58,171</u>	<u>66,257</u>	<u>16,592</u>
<b>Total liabilities</b>		<u>58,574</u>	<u>66,660</u>	<u>16,985</u>
<b>Total equity and liabilities</b>		<u>127,512</u>	<u>147,959</u>	<u>79,419</u>

## STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	<u>As at 30 April</u> HK\$
<b>ASSET</b>	
<b>Non-current asset</b>	
Investment in a subsidiary	<u>8</u>
<b>Total asset</b>	<u><u>8</u></u>
<b>EQUITY</b>	
<b>Equity attributable to owners of the Company</b>	
Share capital	<u>—</u>
<b>Total equity</b>	<u>—</u>
<b>LIABILITY</b>	
<b>Current liability</b>	
Amount due to a subsidiary	<u>8</u>
<b>Total liability</b>	<u>8</u>
<b>Total equity and liability</b>	<u><u>8</u></u>

## COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Combined capital	Capital reserve (Note 23(a))	Statutory reserve (Note 23(b))	Exchange reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Balances at 31 December 2014 and 1 January 2015</b>	10	36	86	3,442	52,481	56,055
<b>Comprehensive income</b>						
Profit for the year	—	—	—	—	12,883	12,883
<b>Total comprehensive income for the year</b>	—	—	—	—	12,883	12,883
<b>Transactions with owners in their capacity as owners</b>						
Transfer to reserves	—	—	219	—	(219)	—
<b>Total transactions with owners in their capacity as owners</b>	—	—	219	—	(219)	—
<b>Balances at 31 December 2015 and 1 January 2016</b>	10	36	305	3,442	65,145	68,938
<b>Comprehensive income</b>						
Profit for the year	—	—	—	—	13,660	13,660
<b>Other comprehensive loss</b>						
Currency translation differences	—	—	—	(1,299)	—	(1,299)
<b>Total comprehensive (loss)/ income for the year</b>	—	—	—	(1,299)	13,660	12,361
<b>Transactions with owners in their capacity as owners</b>						
Transfer to reserves	—	—	167	—	(167)	—
<b>Total transactions with owners in their capacity as owners</b>	—	—	167	—	(167)	—
<b>Balances at 31 December 2016</b>	10	36	472	2,143	78,638	81,299

	Attributable to owners of the Company					
	Combined capital	Capital reserve (Note 23(a))	Statutory reserve (Note 23(b))	Exchange reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Balances at 1 January 2017</b>	10	36	472	2,143	78,638	81,299
<b>Comprehensive loss</b>						
Loss for the period	—	—	—	—	(9,258)	(9,258)
<b>Other comprehensive loss</b>						
Currency translation differences	—	—	—	(667)	—	(667)
<b>Total comprehensive loss for the period</b>	—	—	—	(667)	(9,258)	(9,925)
<b>Transactions with owners in their capacity as owners</b>						
Issue of ordinary shares of group companies	—	—	—	—	—	—
Dividends ( <i>Note 33</i> )	—	—	—	—	(8,940)	(8,940)
<b>Total transactions with owners in their capacity as owners</b>	—	—	—	—	(8,940)	(8,940)
<b>Balances at 30 April 2017</b>	<u>10</u>	<u>36</u>	<u>472</u>	<u>1,476</u>	<u>60,440</u>	<u>62,434</u>
<b>Balances at 1 January 2016</b>	10	36	305	3,442	65,145	68,938
<b>(unaudited)</b>						
<b>Comprehensive loss</b>						
Loss for the period	—	—	—	—	(444)	(444)
<b>Other comprehensive loss</b>						
Currency translation differences	—	—	—	(1,299)	—	(1,299)
<b>Total comprehensive loss for the period</b>	—	—	—	(1,299)	(444)	(1,743)
<b>Balances at 30 April 2016</b>	<u>10</u>	<u>36</u>	<u>305</u>	<u>2,143</u>	<u>64,701</u>	<u>67,195</u>

## COMBINED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December		Four months ended 30 April	
		2015	2016	2016	2017
		HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
<b>Cash flows from operating activities</b>					
Cash generated from/(used in) operations	29	31,243	24,407	14,123	(8,244)
Interest paid		(298)	(211)	(85)	(40)
Income tax paid		(2,939)	(3,415)	(103)	(236)
Net cash generated from/(used in) operating activities		28,006	20,781	13,935	(8,520)
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(1,789)	(2,280)	(352)	(4,502)
Proceeds from disposal of property, plant and equipment	29	8	97	—	—
Interest received		39	68	33	23
Repayments received from related parties		—	—	—	15,146
Net cash (used in)/generated from investing activities		(1,742)	(2,115)	(319)	10,667
<b>Cash flows from financing activities</b>					
Proceeds from bank borrowings		4,054	6,960	—	—
Repayment of bank borrowings		(5,625)	(3,762)	(3,762)	(6,720)
(Increase)/decrease in amounts with related parties		(30,958)	17,539	2,566	(1,702)
Payment for listing expenses		—	(806)	—	(2,916)
Net cash (used in)/generated from financing activities		(32,529)	19,931	(1,196)	(11,338)
<b>Net (decrease)/increase in cash and cash equivalents</b>					
Cash and cash equivalents at beginning of the year		9,291	3,026	3,026	41,054
Effect on foreign exchange rate change		—	(569)	(569)	(272)
Cash and cash equivalents at end of the year		3,026	41,054	14,877	31,591
<b>Analysis of cash and cash equivalents</b>					
Cash at bank and on hand	21	11,025	41,054	14,877	31,591
Bank overdraft	26	(7,999)	—	—	—
		3,026	41,054	14,877	31,591

## II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

#### 1.1 General Information

Takbo Group Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 8 February 2017 as an exempted company with limited liability under Companies Law, Cap. 22 (Law 3 of 1961, as combined and revised) of the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries now comprising the Group (together, the “Group”) are principally engaged in the design, development, manufacture and sale of beauty products, and the design, development and sale of beauty bags (the “Listing Business”).

The English names of the companies and auditors mentioned in this report represented the best efforts by the directors of the Company in translating their Chinese names as they may not have official English names.

#### 1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the “Reorganisation”) as described below, the Listing Business was carried out by Takbo Limited (“Takbo”) and Cosbe Laboratory Inc. (collectively the “Operating Companies”). Before the completion of the Reorganisation, the Operating Companies were controlled by Mr. Or Naam, Ms. Chu Siu Fong (“Ms. Chu”) and Ms. Chan Hoi Yan Polly (“Ms. Chan”) (collectively, the “Controlling Shareholders”) who owned and controlled the Operating Companies throughout the Track Record Period.

In preparation for Listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Listing”), the Group underwent the Reorganisation which principally involved the following steps.

- (a) On 17 October 2016, Classic Charm Investments Limited (“Classic Charm”) was incorporated in the British Virgin Islands (the “BVI”). On the date of its incorporation, 508, 95 and 397 shares in Classic Charm were allotted and issued to Mr. Or Naam, Ms. Chan and Ms. Chu for a cash consideration of United States dollars (“US\$”) 508, US\$95 and US\$397, respectively.
- (b) On 4 January 2017, Full Colour Developments Limited (“Full Colour”) was incorporated in the BVI and one share of US\$1.00 was allotted and issued to Alpha Business Global Limited (“Alpha Business”) in cash at par on 23 February 2017.
- (c) On 10 January 2017, Alpha Business was incorporated in the BVI. On 23 February 2017, one share was allotted and issued to the Company for a cash consideration of US\$1.00.
- (d) On 30 August 2016, Dawning Beauty Limited (“Dawning Beauty”) was incorporated in the BVI. On 1 February 2017, one share of US\$1.00 was allotted and issued to Mr. Or Naam for cash at par and subsequently transferred to Alpha Business for cash at par on 27 February 2017.
- (e) On 8 February 2017, the Company was incorporated in the Cayman Islands. On the date of its incorporation, one nil-paid share was allotted and issued to Sharon Pierson and was subsequently transferred to Mr. Or Naam.
- (f) On 25 September 2017, pursuant to a sale and purchase agreement dated 25 September 2017 entered into between Mr. Or Naam, Ms. Chu and the Company, Mr. Or Naam and Ms. Chu transferred their entire shareholding interests in Takbo to Full Colour for one share issued by the Company to Classic Charm credited as fully paid.

- (g) On 25 September 2017, pursuant to a sale and purchase agreement dated 25 September 2017 entered into between Mr. Or Naam, Ms. Chan and the Company, Mr. Or Naam and Ms. Chan transferred their entire shareholding interests in B&B (H.K.) Limited (“B&B”) to Dawning Beauty for one share issued by the Company to Classic Charm credited as fully paid.

Upon the completion of the Reorganisation, the Company becomes the holding company of the companies now comprising the Group.

Upon the completion of the Reorganisation, the Company has direct or indirect interests in the following subsidiaries:

Name	Country and date of incorporation	Principal activities	Issued and paid up capital	Attributable effective equity interest to the Company as at			Notes
				31 December 2015	2016	30 April 2017	
<b>Directly held</b>							
Alpha Business	British Virgin Islands 10 January 2017	Investment holding	US\$1	Not applicable	Not applicable	100%	(i)
<b>Indirectly held</b>							
Full Colour	British Virgin Islands 4 January 2017	Investment holding	US\$1	Not applicable	Not applicable	100%	(i)
Dawning Beauty	British Virgin Islands 30 August 2016	Investment holding	US\$1	Not applicable	100%	100%	(i)
Takbo Limited	Hong Kong 20 December 1994	Design, development and sale of beauty products and beauty bags	HK\$10,000	100%	100%	100%	(ii)
B&B	Hong Kong 9 April 1999	Investment holding	HK\$2	100%	100%	100%	(iii)
Cosbe Laboratory Inc.* (廣東一芙化妝品有限公司)	The People's Republic of China ("The PRC") 28 June 2002	Design, development, manufacture and sale of beauty products	RMB12,000,000 as at 31 December 2015 and 2016 RMB16,000,000 as at 30 April 2017	100%	100%	100%	(iv)

*Notes:*

- (i) No audited financial statements have been issued for these companies as it is not required to issue audited financial statements under the statutory requirements of its place of incorporation.
- (ii) The statutory financial statements of this company for the year ended 31 December 2015 were audited by Messrs. Franco Lee & Co., Certified Public Accountants. The statutory financial statements of this company for the year ended 31 December 2016 were audited by PricewaterhouseCoopers.
- (iii) The statutory financial statements of this company for the year ended 31 December 2015 were audited by Messrs. Franco Lee & Co., Certified Public Accountants. Up to date, the statutory financial statements of this company for the year ended 31 December 2016 are yet to be issued.
- (iv) The statutory financial statements of this company for the years ended 31 December 2015 and 2016 were audited by Shantou Jinzheng Certified Public Accountants Co., Ltd.\* (汕頭市金正會計師事務所有限公司).
- (v) All companies comprising the Group have adopted 31 December as their financial year end date.

\* For identification purpose only



### 1.3 Basis of presentation

Immediately prior to and after the Reorganisation, the Listing Business is controlled by the Controlling Shareholders. The Listing Business is conducted through Takbo Limited and Cosbe Laboratory Inc. which are ultimately controlled by the Controlling Shareholders and are the only operating entities of the Group. Pursuant to the Reorganisation, the Listing Business is transferred to and held by the Company. The Company and the intermediate holding entities have not been involved in any other business prior to the Reorganisation and do not meet the definition of a business. The transactions as described in Note 1.2 above is merely a reorganisation of the Listing Business with no change in management and the ultimate owners of the Listing Business. Accordingly, the Historical Financial Information of the companies now comprising the Group is presented using the carrying values of the Listing Business for all periods presented for the purpose of this report.

Intercompany transactions, balances, unrealised profits or losses on transactions between group companies are eliminated on combination.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period which are each of the year ended 31 December 2015 and 2016 and the four months ended 30 April 2017, unless otherwise stated.

### 2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

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

#### *New standards and amendments to existing standards not yet adopted by the Group*

The following are standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning after 1 January 2017 or later periods, but have not been early adopted by the Group.

		<b>Effective for accounting year beginning on or after</b>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 9 ( <i>Note a</i> )	Financial Instruments	1 January 2018
HKFRS 15 ( <i>Note b</i> )	Revenue from Contracts with Customers	1 January 2018
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration	1 January 2018
HKFRS 16 ( <i>Note c</i> )	Leases	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

*Note a:* HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group does not plan to early adopt this standard. Based on the Group's preliminary assessment, adoption of this standard is not expected to have a significant impact.

*Note b:* HKFRS 15 "Revenue from Contracts with Customers" — This new standard replaces the previous revenue standards: HKAS 18 "Revenue" and HKAS 11 "Construction Contracts", and the related Interpretations on revenue recognition. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations; and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an "earnings processes" to an "asset-liability" approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost, license arrangements and principal versus agent considerations. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Group is in the process of assessing the impact of the application of HKFRS 15 and based on its preliminary assessment, identified the key areas which might be accounted for differently under this new standard include but not limited to the timing of revenue recognition and the accounting treatment of contract costs, where the impact is not expected to be significant.

*Note c:* The Group is a lessee of certain property, plant and equipment, which are currently classified as operating leases. The Group's current accounting policy for such leases is to record the rental expenses in the Group's combined income statements for the Track Record Period with the related operating lease commitments being separately disclosed. The Group had operating lease commitments of HK\$3,199,000, HK\$3,591,000 and HK\$3,666,000 as at 31 December 2015, 2016 and 30 April 2017, respectively.

HKFRS 16 provides new provisions for the accounting treatment of leases which no longer allows lessees to recognise leases outside of the combined statements of financial position. Instead, all leases must be recognised in the form of assets (for the right of use) and financial liabilities (for the payment obligations) in the combined statements of financial position. Short-term leases of less than twelve months and leases of low-value assets are exempt from such reporting obligation. The new standard will therefore result in derecognition of prepaid operating leases, increase in right-of-use

assets and increase in lease liabilities in the Group's combined statements of financial position. In the Group's combined income statements, the annual rental and amortisation expenses of prepaid operating lease under otherwise identical circumstances will decrease, while depreciation of right of use of assets and interest expense arising from the financial liabilities will increase.

The Group does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's results and financial position but it is expected that right of use asset and lease liabilities of these lease commitments will be required to be recognised in the combined statements of financial position. The new standard is not expected to be applied until the financial year beginning on or after 1 January 2019.

## 2.2 Subsidiaries

### 2.2.1 Consolidation

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

#### (a) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

#### (b) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the combined income statements. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to combined statements of comprehensive income or transferred to another category of equity as specified/permitted by applicable HKFRSs.

### 2.2.2 Separate financial statements

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

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

### 2.3 Foreign currency translation

#### (a) *Functional and presentation currency*

Items included in financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). Historical Financial Information is presented in Hong Kong Dollar ("HK\$"), which is the Company's functional currency and the Group's presentation currency.

#### (b) *Transactions and balances*

Foreign currency transactions are translated into functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in combined statements of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

All foreign exchange gains and losses are presented in the combined statements of comprehensive income within "other gains, net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the combined statements of comprehensive income as part of the fair value gain or loss.

#### (c) *Group companies*

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

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting currency translation differences are recognised in other comprehensive income.

### 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

## 2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the combined statements of comprehensive income during the financial period in which they are incurred.

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

Leasehold improvements	20% or over the lease term, whichever is shorter
Plant and machinery	10% to 20%
Furniture and equipment	10% to 20%
Motor vehicles	10% to 25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains, net" in the combined statements of comprehensive income.

## 2.6 Intangible asset

Intangible assets with definite useful lives are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate costs of intangible assets over their estimated useful lives of 5 years.

## 2.7 Impairment of non-financial assets

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

## 2.8 Financial assets

### (a) Classification

The Group classifies its financial assets in the following categories: loans and receivables and financial assets at fair values through profit or loss. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### (i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade receivables", "deposits and other receivables", "amounts due from related companies" and "cash and cash equivalents" in the combined statement of financial position.

(b) *Recognition, derecognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the combined statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the combined statement of comprehensive income within 'Other gains, net' in the period in which they arise.

## 2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

## 2.10 Impairment of financial assets

### *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the combined statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the combined statement of comprehensive income.

### **2.11 Inventories**

Inventories are carried at the lower of cost and net realisable value. Cost is determined using weighted-average cost (WACO) method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated applicable selling expenses.

### **2.12 Trade and other receivables**

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### **2.13 Cash and cash equivalents**

In the combined statements of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks and bank overdraft. In the combined statements of financial position, bank overdraft are shown within borrowings in current liabilities.

### **2.14 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the combined income statement over the period of the borrowings using the effective interest method.

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

### **2.15 Borrowing costs**

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

All other borrowing costs are recognised in combined income statement in the period in which they are incurred.

## 2.16 Share capital

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

## 2.17 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## 2.18 Current and deferred income tax

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

### (a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the combined statements of financial position date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

### (b) *Deferred income tax*

#### *Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, the deferred tax liabilities are not recognised if they arise from initial recognition of goodwill, the deferred income tax is not accounted for if it is from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### *Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.



Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2.19 Employee benefits

(a) *Pension obligations*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. For defined contribution plans, the Group pays contribution to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) *Long service payments*

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfills certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their services in the current and prior periods.

The obligation is calculated using the projected unit credit method, discounted to present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The discount rate is the yield at the reporting date on high quality corporate bonds which have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses are recognised in full in the period in which they occur, outside the income statement, in the statement of comprehensive income.

(c) *Bonus plans*

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## 2.20 Provisions

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

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

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

### **2.21 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement. Revenue is recognised as follows:

- (a) Sales of beauty products and beauty bags are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- (b) Interest income is recognised on a time-proportion basis using the effective interest method.
- (c) Sample income is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

### **2.22 Operating leases (as the lessee)**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the combined statements of comprehensive income on a straight-line basis over the period of the lease.

### **2.23 Dividend distribution**

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

## **3 FINANCIAL RISK MANAGEMENT**

### **3.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by management of the Group. Formal and informal management meetings are held to identify significant risks and to develop procedures to deal with any risks in relation to the Group's businesses.

**(a) Foreign exchange risk**

The Group mainly operates in Hong Kong and the PRC and is exposed to foreign exchange risk, primarily with respect to US\$ and Chinese Renminbi (“RMB”) denominated transactions arising from the sales of cosmetics products and bags to customers and purchases from suppliers.

Since HK\$ is pegged to US\$, the directors are of the opinion that the foreign exchange risk arising from US\$ of the Group is insignificant.

At 31 December 2015, 2016 and 30 April 2017, if RMB had strengthened/weakened by 5% with all other variables held constant, the post-tax profit for the respective years ended 31 December 2015 and 2016 would have been approximately HK\$44,000 lower/higher and HK\$278,000 lower/higher and the post-tax loss for the four months ended 30 April 2017 would have been approximately HK\$156,000 lower/higher, mainly as a result of foreign exchange losses/gains as at 31 December 2015 and 2016 and foreign exchange gains/losses as at 30 April 2017 on revaluation of RMB denominated cash and cash equivalents, trade and other receivables, financial assets at fair value through profit or loss, trade and other payables, amounts due from/to related parties and bank borrowings.

The table below summarises the assets and liabilities denominated in foreign currencies:

	As at 31 December		As at 30 April
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>			
US\$	27,081	48,798	27,275
RMB	12,343	9,690	9,777
Others	39	52	38
	39,463	58,540	37,090
<b>Liabilities</b>			
US\$	(314)	—	(2,268)
RMB	(13,117)	(16,949)	(5,577)
	(13,431)	(16,949)	(7,845)

**(b) Cash flow and fair value interest rate risk**

The Group's interest rate risk arises from bank overdraft and borrowings. Bank overdraft issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates and interest-bearing bank deposits. Borrowings obtained at fixed rates expose the group to fair value interest rate risk. Group policy is to maintain all of its borrowings in fixed rate instruments. As at 31 December 2015 and 2016, the Group's bank overdraft at variable rate was denominated in HK\$. As at 30 April 2017, the Group had no borrowing and bank overdraft.

As at 31 December 2015, 2016 and 30 April 2017, if the interest rate on bank overdraft, cash at bank and interest-bearing bank deposits had been 100 basis points higher/lower than the prevailing interest rate, with all other variables held constant, post-tax profit for the respective years ended 31 December 2015 and 2016 would have been approximately HK\$22,000 and HK\$98,000 higher/lower and the post-tax loss for the four months ended 30 April 2017 would have been approximately HK\$122,000 lower/higher.

**(c) Credit risk**

The credit risk of the Group mainly arises from bank balances and deposits, trade receivables, deposit and other receivables and amounts due from related parties. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets. In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks.

Majority of the Group's revenue is received from individual customers in relation to beauty products and bags sold and are transacted in cash or credit. The Group's trade receivables arise from sales of beauty products and bags to the customers. As at 31 December 2015, 2016 and 30 April 2017, the top three debtors and the largest debtor accounted for approximately 82.6% and 45.2%, 69.7% and 47.1%, 83.1% and 61.0%, respectively, of the Group's trade receivables balance, respectively. The Group has set up long-term cooperative relationship with these debtors. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors. Management makes periodic assessment on the recoverability of the trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. The directors consider the Group's credit risk of these receivables to be low.

As at 31 December 2015, 2016 and 30 April 2017, the directors are of the opinion that the credit risk of the amounts due from related parties is low due to the sound collection history of the receivables due from them. The extent of credit risk relating to the Group's trade and other receivables is disclosed in Note 19 and Note 20.

**(d) Liquidity risk**

Prudent liquidity risk management is controlled by maintaining sufficient cash and cash equivalents generated from the operating activities. At 31 December 2015, 2016 and 30 April 2017, the Group held cash and cash equivalents and trade receivables, respectively, that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the combined statements of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	<u>On demand</u>	<u>Within 1 year</u>	<u>Between 1 to 2 years</u>	<u>Total</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>As at 31 December 2015</b>				
Trade payables	—	4,625	—	4,625
Accruals and other payables	—	195	—	195
Amounts due to related parties	38,906	—	—	38,906
Bank overdraft and borrowings	<u>7,999</u>	<u>4,189</u>	<u>—</u>	<u>12,188</u>
	<u>46,905</u>	<u>9,009</u>	<u>—</u>	<u>55,914</u>
<b>As at 31 December 2016</b>				
Trade payables	—	4,741	—	4,741
Accruals and other payables	—	262	—	262
Amounts due to related parties	50,798	—	—	50,798
Bank borrowing	<u>—</u>	<u>7,220</u>	<u>—</u>	<u>7,220</u>
	<u>50,798</u>	<u>12,223</u>	<u>—</u>	<u>63,021</u>
<b>As at 30 April 2017</b>				
Trade payables	—	6,722	—	6,722
Accruals and other payables	—	871	—	871
Amounts due to a related company	<u>252</u>	<u>—</u>	<u>—</u>	<u>252</u>
	<u>252</u>	<u>7,593</u>	<u>—</u>	<u>7,845</u>

### 3.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'bank overdraft and borrowings' as shown in the combined statements of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statements of financial position plus net debt.

The gearing ratios as at 31 December 2015, 2016 and 30 April 2017 were as follows:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
Total borrowings (Note 26)	12,054	6,960	—
Less: cash and cash equivalents (Note 21)	<u>(11,025)</u>	<u>(41,054)</u>	<u>(31,591)</u>
Net debt/(cash)	1,029	(34,094)	(31,591)
Total equity	<u>68,938</u>	<u>81,299</u>	<u>62,434</u>
Total capital	<u>69,967</u>	<u>47,205</u>	<u>30,843</u>
<b>Gearing ratio</b>	<u>1.47%</u>	<u>N/A</u>	<u>N/A</u>

### 3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	<u>Level 3</u>
	<u>HK\$'000</u>
<b>As at 31 December 2015</b>	
Financial assets at fair value through profit or loss	<u>4,438</u>
<b>As at 31 December 2016</b>	
Financial assets at fair value through profit or loss	<u>—</u>
<b>As at 30 April 2017</b>	
Financial assets at fair value through profit or loss	<u>112</u>

#### (a) *Financial instruments in level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at the combined statements of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

**(b) Financial instruments in level 2**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

**(c) Financial instruments in level 3**

The following table presents the changes in level 3 instruments for the years ended 31 December 2015 and 2016 and the four months ended 30 April 2017.

	<b>Year ended 31 December</b>		<b>Four months ended</b>
			<b>30 April</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Opening balance	63	4,438	—
Additions	4,375	6,960	560
Settlements	—	(11,078)	(448)
Changes in realised losses for the year included in combined income statements at the end of the year	—	(320)	—
Closing balance	<u>4,438</u>	<u>—</u>	<u>112</u>

As at 31 December 2015, 2016 and 30 April 2017, instruments included in level 3 represent non-guaranteed interest bearing bank deposit issued by financial institution in the PRC which was classified as financial assets at fair value through profit of loss.

There were no transfers between levels 1, 2 and 3 during the Track Record Period.

The key unobservable input is the interest rate of the deposit which is determined by the financial institution.

If the interest rate on interest-bearing bank deposits had been 100 basis points higher/lower than the prevailing interest rate, with all other variables held constant, post-tax profit for the respective years ended 31 December 2015 and 2016 would have been approximately HK\$33,000 and nil higher/lower and post-tax loss for the four months ended 30 April 2017 would have been approximately HK\$1,000 lower/higher.

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

**(a) Impairment of receivables**

The Group makes provision for impairment in receivables based on an assessment of the recoverability of receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition. Provisions are made where events or changes in circumstances indicate that the receivables may not be collectible. The identification of impairment in receivables requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of the receivables and impairment is recognised in the period in which such estimate has been changed.

**(b) Current and deferred taxes**

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations during the ordinary course of business for which the ultimate tax treatment is subject to judgement. If the Group considers it probable that these judgements will result in different tax positions, the most likely amounts of the outcome will be estimated and adjustments to the income tax expense and income tax liabilities will be made accordingly.

Deferred income tax assets relating to certain deductible temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been changed.

**5 SEASONALITY OF OPERATIONS**

The sales of beauty products and beauty bags are subject to seasonal fluctuations, with peak demand in the second and third quarters of the year which is primarily due to the customers preparing for Back-to-School promotions in September and western festivals that take place in the fourth quarter of the year.



## 6 REVENUE AND SEGMENT INFORMATION

## (a) Revenue

The Group is principally engaged in the design, development, manufacture and sale of beauty products, and the design, development and sale of beauty bags. Revenue recognised during the Track Record Period analysed by type of products is as follows:

	<u>Year ended 31 December</u>		<u>Four months ended 30 April</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
			<u>(unaudited)</u>	
<b>Revenue</b>				
Sales of beauty products	107,401	115,673	12,443	13,689
Sales of beauty bags	<u>63,406</u>	<u>49,425</u>	<u>12,954</u>	<u>10,341</u>
	<u>170,807</u>	<u>165,098</u>	<u>25,397</u>	<u>24,030</u>

## (b) Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker that are used for making strategic decisions. The chief operating decision-maker is identified as the executive directors of the Company. The executive directors consider the business from a product perspective and assess the performance of the operating segments based on a measure of gross profit for the purposes of allocating resources. No analysis of segment assets or segment liabilities is regularly provided to the chief operating decision-maker. These reports are prepared on the same basis as this Historical Financial Information.

The management has identified two operating segments based on the types of goods, namely (i) design, development, manufacture and sale of beauty products and (ii) design, development, sale of beauty bags.

The segment information provided to the executive directors for the years ended 31 December 2015, 2016 and the four months ended 30 April 2016 and 2017 are as follows:

	<u>Year ended 31 December 2015</u>		
	<b>Design, development, manufacture and sale of beauty products</b>	<b>Design, development and sale of beauty bags</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Segment revenue from external customers	107,401	63,406	170,807
Cost of sales	<u>(73,274)</u>	<u>(46,309)</u>	<u>(119,583)</u>
Gross profit	34,127	17,097	51,224
Other income			—
Other gains, net			1,828
Administrative expenses			(23,679)
Selling expenses			(13,302)
Finance costs, net			<u>(259)</u>
Profit before income tax			15,812
Income tax expense			<u>(2,929)</u>
Profit for the year			<u><u>12,883</u></u>
	<u>Year ended 31 December 2016</u>		
	<b>Design, development, manufacture and sale of beauty products</b>	<b>Design, development and sale of beauty bags</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Segment revenue from external customers	115,673	49,425	165,098
Cost of sales	<u>(73,761)</u>	<u>(30,937)</u>	<u>(104,698)</u>
Gross profit	41,912	18,488	60,400
Other income			234
Other gains, net			1,191
Administrative expenses			(29,475)
Selling expenses			(15,077)
Finance costs, net			<u>(143)</u>
Profit before income tax			17,130
Income tax expense			<u>(3,470)</u>
Profit for the year			<u><u>13,660</u></u>

## Four months ended 30 April 2016

	<b>Design, development, manufacture and sale of beauty products</b>	<b>Design, development and sale of beauty bags</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
Segment revenue from external customers	12,443	12,954	25,397
Cost of sales	<u>(7,749)</u>	<u>(8,176)</u>	<u>(15,925)</u>
Gross profit	4,694	4,778	9,472
Other income			125
Other gains, net			91
Administrative expenses			(7,367)
Selling expenses			(2,705)
Finance costs, net			<u>(52)</u>
Loss before income tax			(436)
Income tax expense			<u>(8)</u>
Loss for the period			<u><u>(444)</u></u>

## Four months ended 30 April 2017

	<b>Design, development, manufacture and sale of beauty products</b>	<b>Design, development and sale of beauty bags</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Segment revenue from external customers	13,689	10,341	24,030
Cost of sales	<u>(7,985)</u>	<u>(6,837)</u>	<u>(14,822)</u>
Gross profit	5,704	3,504	9,208
Other income			10
Other gains, net			231
Administrative expenses			(16,553)
Selling expenses			(2,258)
Finance costs, net			<u>(17)</u>
Loss before income tax			(9,379)
Income tax credit			<u>121</u>
Loss for the period			<u><u>(9,258)</u></u>

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Customer A (Design, development, manufacture and sale of beauty products and design, development and sale of beauty bags)	42,943	21,976	6,158	6,800
Customer B (Design, development, manufacture and sale of beauty products and design, development and sale of beauty bags)	34,824	32,929	4,050	300 (b)
Customer C (Design, development manufacture and sale of beauty products)	20,748	21,777	3,374	2,696
Customer D (Design, development and sale of beauty bags)	18,952	576 (a)	576 (c)	—
Customer E (Design, development manufacture and sale of beauty products)	—	36,743	—	—
Customer F (Design, development and sale of beauty bags)	16,969 (a)	13,364 (a)	1,932 (c)	6,441
Customer G (Design, development, manufacture and sale of beauty products and design, development and sale of beauty bags)	10,529 (a)	3,377 (a)	1,644 (c)	2,997

*Notes:*

- (a) The corresponding customers did not contribute over 10% of the total revenue of the Group for the years ended 31 December 2015 and 2016.
- (b) The corresponding customer did not contribute over 10% of the total revenue of the Group for the four months ended 30 April 2017.
- (c) The corresponding customers did not contribute over 10% of the total revenue of the Group for the four months ended 30 April 2016.

The Company is domiciled in the Cayman Islands. All non-current assets, other than deferred income tax assets of the Group as at 31 December 2015, 2016 and 30 April 2017 are located in Hong Kong amounted to HK\$1,563,000 and HK\$1,174,000 and HK\$1,226,000 and the PRC amounted to HK\$4,357,000 and HK\$5,036,000 and HK\$9,142,000, respectively.

## (c) Group information

Revenue from external customers by country, based on the location to which the goods were delivery:

	<u>Year ended 31 December</u>		<u>Four months ended 30 April</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u> (unaudited)	<u>HK\$'000</u>
United States of America ("USA")	145,939	145,507	20,451	18,951
PRC	6,291	6,047	1,085	1,802
United Arab Emirates ("UAE")	10,529	3,377	1,644	3,009
United Kingdom	5,283	5,066	1,130	199
Other countries	2,765	5,101	1,087	69
	<u>170,807</u>	<u>165,098</u>	<u>25,397</u>	<u>24,030</u>

## 7 OTHER INCOME

	<u>Year ended 31 December</u>		<u>Four months ended 30 April</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u> (unaudited)	<u>HK\$'000</u>
Sample income	<u>—</u>	<u>234</u>	<u>125</u>	<u>10</u>

## 8 OTHER GAINS, NET

	<u>Year ended 31 December</u>		<u>Four months ended 30 April</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u> (unaudited)	<u>HK\$'000</u>
Exchange gains, net	1,835	1,103	44	231
(Loss)/gain on disposal of property, plant and equipment	(7)	41	—	—
Others	<u>—</u>	<u>47</u>	<u>47</u>	<u>—</u>
	<u>1,828</u>	<u>1,191</u>	<u>91</u>	<u>231</u>

## 9 EXPENSES BY NATURE

The following expenses are included in cost of sales, selling expenses and administrative expenses:

	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Raw materials and consumables used	99,727	89,509	15,318	14,628
Changes in inventories of finished goods and work in progress	3,024	(2,352)	(1,050)	(2,860)
Amortisation of intangible asset (Note 16)	73	68	23	22
Auditors' remuneration	265	324	83	81
Employee benefits expenses, excluding benefits and interests of directors (Note 10)	7,866	9,464	2,395	3,167
Directors' emoluments (Note 11)	5,068	8,075	1,537	1,573
Manpower service costs	11,211	10,339	1,221	1,467
Depreciation of property, plant and equipment (Note 15)	1,826	1,551	499	408
Inspection fees	2,243	2,103	400	476
Operating lease rentals in respect of leased premises	1,774	1,623	556	669
Advertising and marketing expenses	1,411	2,281	481	572
Travelling expenses and entertainment expense	3,567	3,200	1,453	764
Freight and transportation	7,499	9,190	1,249	1,236
Utility expenses	997	917	207	189
Legal and professional fees	241	543	63	456
Expenses incurred in connection with the Company's listing	—	2,417	—	8,968
Others	9,772	9,998	1,562	1,817
Total cost of sales, selling expenses and administrative expenses	<u>156,564</u>	<u>149,250</u>	<u>25,997</u>	<u>33,633</u>

## 10 EMPLOYEE BENEFIT EXPENSES, EXCLUDING BENEFITS AND INTERESTS OF DIRECTORS

	Year ended 31 December		Four months ended 30 April	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Salaries, bonuses and allowances	5,655	7,058	1,870	2,566
Pension costs-defined contribution plan (Note)	555	872	202	359
Other employee benefits	<u>1,656</u>	<u>1,534</u>	<u>323</u>	<u>242</u>
	<u>7,866</u>	<u>9,464</u>	<u>2,395</u>	<u>3,167</u>

Note: The Group maintains two defined contribution pension schemes for its employees in Hong Kong and PRC under the Mandatory Provident Fund ("MPF") and Social Insurance respectively.

Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employee's relevant income, as defined in the Hong Kong Mandatory Provident Fund Scheme Ordinance. Both the Group's and the employee's contributions are subject to a cap of HK\$1,500 per month. The contributions are fully and immediately vested for the employees. The assets of this scheme are held separately from those of the Group under independently administered funds.

Under the Social Insurance Scheme, the Group is required to make monthly contributions to the employees pursuant to the PRC laws and regulations by making contributions to the mandatory social funds which provide basic retirement, medical, work-related injury, maternity and unemployment benefits.

During the years ended 31 December 2015 and 2016 and the four months ended 30 April 2016 and 2017, the aggregate amounts of the Group's contributions to the aforementioned pension scheme were approximately HK\$609,000, HK\$926,000, HK\$220,000 and HK\$377,000, respectively.

## 11 BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' emoluments

*For the year ended 31 December 2015*

Name	Fee	Salaries	Other allowances and benefits in kind	Discretionary bonuses	Defined contribution pension costs	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive directors</b>						
Mr. Or Naam, Chief Executive Officer	—	1,235	1,694	—	18	2,947
Ms. Chan Hoi Yan Polly	—	1,105	—	—	18	1,123
Mr. Or Huen	—	770	210	—	18	998
	—	3,110	1,904	—	54	5,068

*For the year ended 31 December 2016*

Name	Fee	Salaries	Other allowances and benefits in kind	Discretionary bonuses	Defined contribution pension costs	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive directors</b>						
Mr. Or Naam, Chief Executive Officer	—	1,235	1,724	900	18	3,877
Ms. Chan Hoi Yan Polly	—	1,105	—	900	18	2,023
Mr. Or Huen	—	911	346	900	18	2,175
	—	3,251	2,070	2,700	54	8,075

*For the four months ended 30 April 2016 (unaudited)*

<u>Name</u>	<u>Fee</u>	<u>Salaries</u>	<u>Other allowances and benefits in kind</u>	<u>Discretionary bonuses</u>	<u>Defined contribution pension costs</u>	<u>Total</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive directors</b>						
Mr. Or Naam, Chief						
Executive Officer	—	380	489	—	6	875
Ms. Chan Hoi Yan Polly	—	340	—	—	6	346
Mr. Or Huen	—	237	73	—	6	316
	—	957	562	—	18	1,537

*For the four months ended 30 April 2017*

<u>Name</u>	<u>Fee</u>	<u>Salaries</u>	<u>Other allowances and benefits in kind</u>	<u>Discretionary bonuses</u>	<u>Defined contribution pension costs</u>	<u>Total</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive directors</b>						
Mr. Or Naam, Chief						
Executive Officer	—	380	470	—	6	856
Ms. Chan Hoi Yan Polly	—	340	8	—	6	354
Mr. Or Huen	—	356	1	—	6	363
	—	1,076	479	—	18	1,573

The remuneration shown above represents remuneration received and receivable from the Group by these directors in their capacity as employees to the Group during the Track Record Period.

There was no arrangement under which a director waived or agreed to waive any emoluments during the Track Record Period.

**(b) Directors' retirement benefits and termination benefits**

Save as disclosed in Note 11(a), the directors did not receive any other retirement benefits or termination benefits during the Track Record Period.

**(c) Consideration provided to third parties for making available directors' services**

During the years ended 31 December 2015 and 2016 and the four months ended 30 April 2016 and 2017, no consideration was provided to or receivable by third parties for making available directors' services.

**(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors**

As at 31 December 2015, 2016 and 30 April 2017, there are no loans, quasi-loans and other dealing arrangements in favour of directors, their controlled bodies corporate and connected entities.



**(e) Director's material interests in transactions, arrangements or contracts**

Save as disclosed in Note 32, no significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of each of the years ended 31 December 2015 and 2016 and the four months ended 30 April 2016 and 2017 or at any time during the Track Record Period.

**(f) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2015 and 2016 and the four months ended 30 April 2016 and 2017 include 3, 3, 3 and 3 directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 2, 2, 2 and 2 individuals during the Track Record Period are as follows:

	<u>Year ended 31 December</u>		<u>Four months ended 30 April</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
			(unaudited)	
Salaries, other allowances and benefits	2,062	1,948	523	560
Pension cost — defined contribution plan	—	17	5	7
	<u>2,062</u>	<u>1,965</u>	<u>528</u>	<u>567</u>

The emoluments fell within the following bands:

	<u>Number of individuals</u>			
	<u>Year ended 31 December</u>		<u>Four months ended 30 April</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
			(unaudited)	
Emolument bands				
Nil to HK\$500,000	1	1	2	2
HK\$1,500,000 to HK\$2,000,000	<u>1</u>	<u>1</u>	<u>—</u>	<u>—</u>

No directors or any of the five highest paid individuals received any emoluments from the Group as an inducement to join or upon joining the Group or compensation for loss of office.

## 12 FINANCE COSTS, NET

	<u>Year ended 31 December</u>		<u>Four months ended 30 April</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u> (unaudited)	<u>HK\$'000</u>
<b>Finance income</b>				
Bank interest income	----- (39)	----- (68)	----- (33)	----- (23)
<b>Finance costs</b>				
Interest expense on bank borrowings	281	195	82	35
Others	<u>17</u>	<u>16</u>	<u>3</u>	<u>5</u>
	<u>298</u>	<u>211</u>	<u>85</u>	<u>40</u>
<b>Finance costs, net</b>	<u>259</u>	<u>143</u>	<u>52</u>	<u>17</u>

## 13 INCOME TAX EXPENSE/(CREDIT)

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the Track Record Period. Corporate income tax on profits from subsidiaries operating in Mainland China have been calculated at 25% in accordance with the relevant People's Republic of China tax laws and regulations. No overseas profits tax has been calculated for subsidiaries of the Group that are incorporated in the BVI or the Cayman Islands as they are exempted from tax.

Income tax expense charged to the combined statements of comprehensive income represents:

	<u>Year ended 31 December</u>		<u>Four months ended 30 April</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u> (unaudited)	<u>HK\$'000</u>
Current tax	3,041	3,668	—	57
Deferred income tax ( <i>Note 27</i> )	(193)	(198)	8	(151)
Under/(over) provision in prior year	<u>81</u>	<u>—</u>	<u>—</u>	<u>(27)</u>
	<u>2,929</u>	<u>3,470</u>	<u>8</u>	<u>(121)</u>

The taxation on the Group's profit/(loss) before income tax differs from the theoretical amount that would arise using the taxation rate in Hong Kong as follows:

	<u>Year ended 31 December</u>		<u>Four months ended 30 April</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
			<u>(unaudited)</u>	
Profit/(loss) before income tax	<u>15,812</u>	<u>17,130</u>	<u>(436)</u>	<u>(9,379)</u>
Tax calculated at a tax rate of 16.5%	2,609	2,826	(72)	(1,548)
Effect of different taxation rates in other country	239	209	(11)	(32)
Income not subject to tax	—	—	—	(1)
Expenses not deductible for tax purpose	20	435	91	1,487
Under/(over) provision in prior year	81	—	—	(27)
Hong Kong profits tax deduction	<u>(20)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Income tax expense/(credit)	<u>2,929</u>	<u>3,470</u>	<u>8</u>	<u>(121)</u>

#### 14 EARNINGS/(LOSS) PER SHARE

No earnings/(loss) per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results for each of the years ended 31 December 2015 and 2016 and the four months ended 30 April 2016 and 2017 on a combined basis as disclosed in Note 1.3 above.

## 15 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement	Plant and machinery	Furniture and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2015						
Cost	3,521	11,497	9,280	3,069	—	27,367
Accumulated depreciation	(3,031)	(9,217)	(7,273)	(2,125)	—	(21,646)
Net book amount	<u>490</u>	<u>2,280</u>	<u>2,007</u>	<u>944</u>	<u>—</u>	<u>5,721</u>
Year ended 31 December 2015						
Opening net book amount	490	2,280	2,007	944	—	5,721
Additions	—	581	434	774	—	1,789
Disposals	—	(15)	—	—	—	(15)
Depreciation charge (Note 9)	(220)	(598)	(450)	(558)	—	(1,826)
Closing net book amount	<u>270</u>	<u>2,248</u>	<u>1,991</u>	<u>1,160</u>	<u>—</u>	<u>5,669</u>
As at 31 December 2015						
Cost	3,521	11,928	9,714	3,842	—	29,005
Accumulated depreciation	(3,251)	(9,680)	(7,723)	(2,682)	—	(23,336)
Net book amount	<u>270</u>	<u>2,248</u>	<u>1,991</u>	<u>1,160</u>	<u>—</u>	<u>5,669</u>
Year ended 31 December 2016						
Opening net book amount	270	2,248	1,991	1,160	—	5,669
Currency translation differences	—	(162)	(102)	(32)	—	(296)
Additions	337	650	795	85	413	2,280
Disposals	—	(49)	(7)	—	—	(56)
Depreciation charge (Note 9)	(287)	(377)	(498)	(389)	—	(1,551)
Closing net book amount	<u>320</u>	<u>2,310</u>	<u>2,179</u>	<u>824</u>	<u>413</u>	<u>6,046</u>
As at 31 December 2016						
Cost	3,858	11,269	10,158	3,167	413	28,865
Accumulated depreciation	(3,538)	(8,959)	(7,979)	(2,343)	—	(22,819)
Net book amount	<u>320</u>	<u>2,310</u>	<u>2,179</u>	<u>824</u>	<u>413</u>	<u>6,046</u>
Four months ended 30 April 2017						
Opening net book amount	320	2,310	2,179	824	413	6,046
Currency translation differences	—	(80)	(59)	(14)	(14)	(167)
Additions	127	49	62	—	2,309	2,547
Depreciation charge (Note 9)	(44)	(134)	(158)	(72)	—	(408)
Closing net book amount	<u>403</u>	<u>2,145</u>	<u>2,024</u>	<u>738</u>	<u>2,708</u>	<u>8,018</u>
As at 30 April 2017						
Cost	3,985	10,929	10,072	3,147	2,708	30,841
Accumulated depreciation	(3,582)	(8,784)	(8,048)	(2,409)	—	(22,823)
Net book amount	<u>403</u>	<u>2,145</u>	<u>2,024</u>	<u>738</u>	<u>2,708</u>	<u>8,018</u>

Depreciation expenses of HK\$807,000, HK\$631,000, HK\$195,000 and HK\$235,000 has been charged in “cost of sales” and HK\$1,019,000, HK\$920,000, HK\$304,000 and HK\$173,000 have been charged in “administrative expenses” for the years ended 31 December 2015 and 2016 and the four months ended 30 April 2016 and 2017, respectively.

During the years ended 31 December 2015 and 2016, the Group has not capitalised borrowing costs on qualifying assets. During the four months ended 30 April 2017, the Group has capitalised borrowing costs amounting to HK\$30,000 on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 1.9%.

## 16 INTANGIBLE ASSET

	<b>Computer software</b>
	<b>HK\$'000</b>
As at 1 January 2015	
Cost	367
Accumulated amortisation	<u>(43)</u>
Net book amount	<u><u>324</u></u>
Year ended 31 December 2015	
Opening net book amount	324
Amortisation (Note 9)	<u>(73)</u>
Closing net book amount	<u><u>251</u></u>
As at 31 December 2015	
Cost	367
Accumulated amortisation	<u>(116)</u>
Net book amount	<u><u>251</u></u>
Year ended 31 December 2016	
Opening net book amount	251
Currency translation differences	(19)
Amortisation (Note 9)	<u>(68)</u>
Closing net book amount	<u><u>164</u></u>
As at 31 December 2016	
Cost	340
Accumulated amortisation	<u>(176)</u>
Net book amount	<u><u>164</u></u>

	<b>Computer software</b>
	<b>HK\$'000</b>
Four months ended 30 April 2017	
Opening net book amount	164
Currency translation differences	(5)
Amortisation ( <i>Note 9</i> )	<u>(22)</u>
Closing net book amount	<u>137</u>
As at 30 April 2017	
Cost	329
Accumulated amortisation	<u>(192)</u>
Net book amount	<u>137</u>

Amortisation expenses of the Group's computer software of HK\$73,000, HK\$68,000, HK\$23,000 and HK\$22,000 have been charged to "administrative expenses" for the years ended 31 December 2015 and 2016 and the four months ended 30 April 2016 and 2017, respectively.

#### 17 FINANCIAL INSTRUMENTS BY CATEGORY

	<b>As at 31 December</b>		<b>As at 30 April</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Financial assets</b>			
Financial assets at fair value through profit or loss	<u>4,438</u>	<u>—</u>	<u>112</u>
<i>Loans and receivables</i>			
Trade receivables	23,200	12,546	18,382
Deposits and other receivables	138	138	94
Amounts due from related parties	74,081	73,671	11
Cash and cash equivalents	<u>11,025</u>	<u>41,054</u>	<u>31,591</u>
	<u>108,444</u>	<u>127,409</u>	<u>50,078</u>
	<u>112,882</u>	<u>127,409</u>	<u>50,190</u>
<b>Financial liabilities</b>			
<i>Other financial liabilities at amortised cost</i>			
Trade payables	4,625	4,741	6,722
Accruals and other payables	195	262	871
Amount due to related parties	38,906	50,798	252
Bank overdraft and borrowings	<u>12,054</u>	<u>6,960</u>	<u>—</u>
	<u>55,780</u>	<u>62,761</u>	<u>7,845</u>

## 18 INVENTORIES

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
Raw materials	818	3,487	3,286
Work in progress	107	372	605
Finished goods	342	2,414	4,960
	<u>1,267</u>	<u>6,273</u>	<u>8,851</u>

The cost of inventories included in cost of sales during the years ended 31 December 2015 and 2016 and the four months ended 30 April 2016 and 2017 amounted to approximately HK\$102,751,000, HK\$87,157,000, HK\$14,268,000 and HK\$11,768,000, respectively.

## 19 TRADE RECEIVABLES

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
Trade receivables	<u>23,200</u>	<u>12,546</u>	<u>18,382</u>

Trade receivables represent income receivable from customers. The credit terms granted by the Group generally ranged between 14 to 90 days.

As at 31 December 2015, 2016 and 30 April 2017, the ageing analysis of trade receivables based on invoice date is as follows:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
1 to 30 days	2,264	1,318	4,213
31 to 60 days	8,908	740	3,286
61 to 90 days	1,983	3,482	1,330
91 to 120 days	1,168	110	3,770
121 to 150 days	7,389	3,086	1,352
151 to 180 days	814	457	943
Over 181 days	674	3,353	3,488
	<u>23,200</u>	<u>12,546</u>	<u>18,382</u>

As at 31 December 2015, 2016 and 30 April 2017, trade receivables of HK\$10,667,000, HK\$5,389,000 and HK\$11,169,000 were considered past due but not impaired. These relate to customers for whom there are no significant financial difficulties and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
1 to 30 days	6,207	297	3,125
31 to 60 days	1,747	1,578	2,149
61 to 90 days	1,175	608	341
91 to 180 days	1,494	2,804	4,843
181 to 365 days	11	54	609
Over 365 days	33	48	102
	<u>10,667</u>	<u>5,389</u>	<u>11,169</u>

The maximum exposure to credit risk is the carrying amounts of trade receivables and the Group does not hold any collateral as security.

The carrying amounts of trade receivables approximate their fair values as at 31 December 2015, 2016 and 30 April 2017 and are denominated in the following currencies:

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
US\$	23,200	10,837	14,986
RMB	—	1,709	3,396
	<u>23,200</u>	<u>12,546</u>	<u>18,382</u>

## 20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December		As at
	2015	2016	30 April
	HK\$'000	HK\$'000	2017
Rental, utilities and other deposits	94	94	94
Prepayments	4,041	3,636	5,655
Prepayments for listing	—	2,060	3,857
Other receivables	2,895	1,719	1,864
	7,030	7,509	11,470
Less non-current portion: Prepayments	—	—	(2,213)
	<u>7,030</u>	<u>7,509</u>	<u>9,257</u>



The carrying amounts of prepayments, deposits and other receivables as at 31 December 2015, 2016 and 30 April 2017 are denominated in the following currencies:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
HK\$	138	2,021	3,586
US\$	—	129	1,011
RMB	<u>6,892</u>	<u>5,359</u>	<u>6,873</u>
	<u>7,030</u>	<u>7,509</u>	<u>11,470</u>

The carrying amounts of deposits and other receivables approximate their fair values as at 31 December 2015, 2016 and 30 April 2017.

## 21 CASH AND CASH EQUIVALENTS

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
Cash on hand	124	85	115
Cash at bank	10,901	40,969	16,051
Short-term bank deposits	<u>—</u>	<u>—</u>	<u>15,425</u>
Cash and cash equivalents	<u>11,025</u>	<u>41,054</u>	<u>31,591</u>

Cash and cash equivalents are denominated in the following currencies:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
HK\$	311	1,313	13,006
US\$	2,769	31,812	12,289
RMB	7,906	7,877	6,258
Others	<u>39</u>	<u>52</u>	<u>38</u>
	<u>11,025</u>	<u>41,054</u>	<u>31,591</u>

As at 31 December 2015 and 2016, the Group did not have any short-term bank deposit. The weighted effective interest rate per annum on short-term bank deposits as at 30 April 2017 is 0.69%. These deposits have an average maturity of 61 days.

**22 COMBINED CAPITAL**

The Company was incorporated on 8 February 2017 and the Reorganisation was completed on 25 September 2017. For the purpose of the Historical Financial Information, the combined capital in the combined statements of financial position as at 31 December 2015, 2016 and 30 April 2017 represents the combined capital of the companies now comprising the Group after elimination of inter-company investments.

**23 RESERVE****(a) Capital reserve**

Capital reserve of the Group represents the excess of the aggregate net assets values of the subsidiaries acquired by the Company over the nominal consideration payable by the Group for the acquisition of subsidiaries pursuant to the Reorganisation as described in Note 1.2.

**(b) Statutory reserve**

Under the relevant PRC laws and regulations, PRC companies are required to allocate 10% of the companies' net profit to the fund until such fund reaches 50% of the companies' registered capital. The statutory reserve fund can be utilised, upon approval by the relevant authorities, to offset against accumulated losses or to increase registered capital of the companies, provided that such fund is maintained at a minimum of 25% of the companies' registered capital.

**24 TRADE PAYABLES**

The ageing analysis of the trade payables based on invoice dates as at 31 December 2015, 2016 and 30 April 2017 were as follows:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
1 to 30 days	2,361	4,378	2,412
31 to 60 days	737	46	2,166
61 to 90 days	22	67	171
91 to 120 days	61	8	431
121 to 180 days	202	78	1,044
181 to 365 days	1,242	164	416
Over 365 days	—	—	82
	<u>4,625</u>	<u>4,741</u>	<u>6,722</u>

The carrying amounts of trade payables approximate their fair values as at 31 December 2015, 2016 and 30 April 2017 are denominated in the following currencies:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
US\$	170	—	2,268
HK\$	—	23	—
RMB	4,455	4,718	4,454
	<u>4,625</u>	<u>4,741</u>	<u>6,722</u>

## 25 ACCRUALS, PROVISIONS AND OTHER PAYABLES

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
<b>Non-current portion</b>			
Provision for long service payments	<u>403</u>	<u>403</u>	<u>393</u>
<b>Current portion</b>			
Receipts in advance	924	547	371
Provisions and accrued expenses	1,454	1,669	2,254
Accrued listing expenses	—	861	5,917
Other payables	<u>66</u>	<u>349</u>	<u>960</u>
	<u>2,444</u>	<u>3,426</u>	<u>9,502</u>

The carrying amounts of accruals, provisions and other payables as at 31 December 2015, 2016 and 30 April 2017 are denominated in the following currencies:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
HK\$	962	1,530	6,665
US\$	671	547	755
RMB	<u>1,214</u>	<u>1,752</u>	<u>2,475</u>
	<u>2,847</u>	<u>3,829</u>	<u>9,895</u>

The carrying amounts of accruals and other payables approximate their fair values as at 31 December 2015, 2016 and 30 April 2017.

## 26 BANK OVERDRAFT AND BORROWINGS

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
Bank overdraft	7,999	—	—
Bank borrowings	4,055	6,960	—
	<u>12,054</u>	<u>6,960</u>	<u>—</u>

As at 31 December 2015 and 2016, the Group had total banking facilities of HK\$25,225,000 and HK\$26,560,000 respectively, of which HK\$12,054,000 and HK\$6,960,000 bank borrowings were drawn down by the subsidiaries. As at 30 April 2017, the Group has no banking facility and no bank borrowing was drawn by the any of the Group entities.

The weighted effective interest rates per annum of the Group's bank overdraft and borrowings as at 31 December 2015 and 31 December 2016 are 3.78% and 5.44% respectively.

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
Within 1 year	<u>12,054</u>	<u>6,960</u>	<u>—</u>

As at 31 December 2015 and 2016, the Group's bank borrowings were secured by the land use right of Shantou Baoma Processing Complex Company Limited, a related party of the Group. As at 31 December 2015, the Group's bank overdraft was secured by the personal guarantee provided by a shareholder.

The guarantee provided by the related party and the shareholder was released in February 2017.

Pursuant to the terms set out in certain banking facilities granted to the Group, the Group has to comply with certain restrictive financial covenants.

Fair value of current borrowings equal their carrying amount as the impact of discounting is not significant.

## 27 DEFERRED INCOME TAX

The analysis of deferred income tax assets is as follows:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
Deferred income tax assets			
— to be recovered after more than 12 months	<u>498</u>	<u>696</u>	<u>847</u>

The gross movement on the deferred income tax account is as follows:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
At 1 January	305	498	696
Recognised in the combined income statements ( <i>Note 13</i> )	<u>193</u>	<u>198</u>	<u>151</u>
Deferred income tax assets	<u><u>498</u></u>	<u><u>696</u></u>	<u><u>847</u></u>

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

#### Deferred income tax assets

	<u>Decelerated tax</u>	<u>Provisions</u>	<u>Total</u>
	<u>depreciation</u>		
	<u>HK\$'000</u>		
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
As at 1 January 2015	234	71	305
Credited to the combined income statements	<u>35</u>	<u>158</u>	<u>193</u>
As at 31 December 2015 and 1 January 2016	269	229	498
Credited to the combined income statements	<u>66</u>	<u>132</u>	<u>198</u>
As at 31 December 2016 and 1 January 2017	335	361	696
Credited to the combined income statements	<u>27</u>	<u>124</u>	<u>151</u>
As at 30 April 2017	<u><u>362</u></u>	<u><u>485</u></u>	<u><u>847</u></u>

As at 31 December 2015, 2016 and 30 April 2017, deferred income tax liabilities of HK\$244,000, HK\$394,000 and HK\$397,000 have not been recognised for the withholding tax that would be payable on the unremitted retained earnings of the Group's subsidiary in the PRC amounting to HK\$2,443,000, HK\$3,942,000 and HK\$3,974,000.

## 28 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
Current portion:	<u><u>4,438</u></u>	<u><u>—</u></u>	<u><u>112</u></u>

The fair value of financial assets at fair value through profit or loss are within level 3 of fair value hierarchy (*Note 3.3*).

## 29 CASH GENERATED FROM OPERATIONS

	<u>Year ended 31 December</u>		<u>Four months ended 30 April</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Profit/(loss) before income tax	15,812	17,130	(436)	(9,379)
Adjustments for:				
Depreciation of property, plant and equipment	1,826	1,551	499	408
Amortisation of intangible asset	73	68	23	22
Loss/(gain) on disposal of property, plant and equipment	7	(41)	—	—
Finance costs, net	259	143	52	17
Foreign exchange difference on operating activities	—	(298)	(333)	(553)
Operating profit/(loss) before working capital changes	17,977	18,553	(195)	(9,485)
Changes in working capital:				
Inventories	6,115	(4,942)	(1,576)	(2,391)
Trade receivables	19,854	10,653	4,086	(5,777)
Prepayments, deposits and other receivables	(86)	638	3,692	1,346
Amounts due from related companies	(4,723)	(5,403)	1,230	561
Financial assets at fair value through profit or loss	(4,375)	4,118	3,480	(112)
Trade payables	(3,815)	(114)	3,382	1,861
Accruals, provisions and other payables	(361)	1,314	(160)	5,930
Receipt in advance	657	(410)	184	(177)
Cash generated from/(used in) operations	<u>31,243</u>	<u>24,407</u>	<u>14,123</u>	<u>(8,244)</u>

In the combined statements of cash flows, proceeds from disposal of property, plant and equipment comprise:

	<u>As at 31 December</u>		<u>Four months ended 30 April</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Cost disposed	150	1,243	—	—
Accumulated depreciation	(135)	(1,187)	—	—
(Loss)/gain on disposal of property, plant and equipment ( <i>Note 8</i> )	<u>(7)</u>	<u>41</u>	<u>—</u>	<u>—</u>
Proceeds from disposal of property, plant and equipment	<u>8</u>	<u>97</u>	<u>—</u>	<u>—</u>

## Reconciliation of liabilities arising from financing activities:

For the year ended 31 December 2015

	<u>1 January 2015</u>	<u>Cash flows</u>	<u>Non-cash changes</u>	<u>31 December 2015</u>
	HK\$'000	HK\$'000	Foreign exchange movement	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank borrowings	5,626	(1,571)	—	4,055
Amounts with related parties	64,051	(30,958)	—	33,093
	<u>69,677</u>	<u>(32,529)</u>	<u>—</u>	<u>37,148</u>

For the year ended 31 December 2016

	<u>1 January 2016</u>	<u>Cash flows</u>	<u>Non-cash changes</u>	<u>31 December 2016</u>
	HK\$'000	HK\$'000	Foreign exchange movement	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank borrowings	4,055	3,198	(293)	6,960
Amounts with related parties	33,093	17,539	166	50,798
	<u>37,148</u>	<u>20,737</u>	<u>(127)</u>	<u>57,758</u>

For the four months ended 30 April 2016 (unaudited)

	<u>1 January 2016</u>	<u>Cash flows</u>	<u>Non-cash changes</u>	<u>30 April 2016</u>
	HK\$'000	HK\$'000	Foreign exchange movement	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank borrowings	4,055	(3,762)	(293)	—
Amounts with related parties	33,093	2,566	166	35,825
	<u>37,148</u>	<u>(1,196)</u>	<u>(127)</u>	<u>35,825</u>

For the four months ended 30 April 2017

	<u>Non-cash changes</u>				<u>30 April 2017</u> HK\$'000
	<u>1 January</u> 2017	<u>Cash flows</u>	<u>Net settlement</u> <u>of the balances</u> <u>between the</u> <u>related parties</u> <u>and the Group</u>	<u>Foreign</u> <u>exchange</u> <u>movement</u>	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Bank borrowings	6,960	(6,720)	—	(240)	—
Amounts with related parties	50,798	(1,702)	(49,269)	173	—
	<u>57,758</u>	<u>(8,422)</u>	<u>(49,269)</u>	<u>(67)</u>	<u>—</u>

**Non-cash transaction:**

On 6 March 2017, all of the related companies with non-trade balances with the Group, the directors and a shareholder of the Group and the Group entered into a contractual arrangement to settle their respective balances with the Group. Non-trade receivables from the related companies amounting to HK\$49,269,000 were net settled with non-trade payables to the directors and a shareholder of the Group.

A special dividend of HK\$8,940,000 was declared on 6 March 2017 which was settled through the current account with related companies.

**30 CONTINGENCIES**

As at 31 December 2015, 2016 and 30 April 2017, the Group did not have any significant contingent liabilities.

**31 COMMITMENTS**

**(a) Capital commitments**

Capital expenditure contracted for at the end of the year/period but not yet incurred is as follows:

	<u>As at 31 December</u>		<u>As at</u> <u>30 April</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	—	2,213	5,743

**(b) Operating lease commitments**

*As a lessee*

As at 31 December 2015, 2016 and 30 April 2017, The Group leases office and residential premises under non-cancellable operating lease agreements with related companies. The leases terms are between 1.25 to 5 years and are renewable at the end of the lease period at market rate.



The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December		As at 30 April
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
No later than one year	1,999	2,597	2,450
Later than one year and no later than five years	1,200	994	1,216
	3,199	3,591	3,666

### 32 RELATED PARTY TRANSACTIONS

For the purposes of this Historical Financial Information, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

The directors are of the view that the following individuals and companies were related parties that had transactions or balances with the Group as at and during the years ended 31 December 2015 and 2016 and the four months ended 30 April 2016 and 2017:

Name of related party	Relationship with the Group
Mr. Or Naam	Controlling Shareholder and director of the Group
Ms. Chan	Controlling Shareholder and director of the Group, spouse of Mr. Or Naam
Ms. Chu	Controlling Shareholder of the Group, spouse of Mr. Or Tak Ming and mother-in-law of Ms. Chan
Mr. Or Tak Ming	Spouse of Ms. Chu
Mr. Or Huen	Brother of Mr. Or Naam and son of Mr. Or Tak Ming and Ms. Chu
Chapmont Limited	Controlled by certain parties among the Controlling Shareholders
Sky Choice Development Limited	Controlled by certain parties among the Controlling Shareholders
Smart Path Development Limited	Controlled by certain parties among the Controlling Shareholders
Max Choice Limited	Controlled by a connected person with the Controlling Shareholders
Tak Bo Hong	Controlled by certain parties among the Controlling Shareholders
Tak Bo Hong Company Limited	Controlled by certain parties among the Controlling Shareholders
Shantou Baoma Processing Complex Company Limited	Controlled by certain parties among the Controlling Shareholders
Shantou Yecao Garments Company Limited	Controlled by certain parties among the Controlling Shareholders
Meizhou City Haohong Crafts Commodity Company Limited* (梅州市皓泓工藝日用品有限公司)	Controlled by certain parties among the Controlling Shareholders
V.M. Limited	Controlled by certain parties among the Controlling Shareholders

\* for identification purpose only

Other than those transactions and balances disclosed elsewhere in the Historical Financial Information, the following transactions were carried out with related parties during the Track Record Period:

(a) **Transactions with related parties**

The following transactions were undertaken by the Group with relate parties during the Track Record Period:

	<u>Year ended 31 December</u>		<u>Four months ended 30 April</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
			<u>(unaudited)</u>	
Continuing transactions:				
Shantou Baoma Processing Complex Company Limited				
— Purchases	13,126	13,272	1,949	4,464
— Utility expenses	702	587	133	176
— Rental expenses	428	499	154	316
Sky Choice Development Limited				
— Rental expenses	1,020	925	340	292
Smart Path Development Limited				
— Rental expenses	1,200	1,200	400	400

All of the above transactions with related parties were conducted in the ordinary course of the business of the Group based on the terms mutually agreed between the relevant parties.

(b) **Key management compensation**

Key management personnel are deemed to be the members of the Board of Directors of the Company who have responsibility for the planning, directing and controlling the activities of the Group.

(c) **Amounts due from related parties**

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
Amount due from a shareholder			
— Ms. Chu ( <i>Note i</i> )	3,540	—	—
Amount due from a related party			
— Mr. Or Tak Ming ( <i>Note i</i> )	2,675	—	—
Amounts due from related companies			
— Chapmont Limited ( <i>Note i</i> )	5,974	6,174	—
— Sky Choice Development Limited ( <i>Note i</i> )	23,166	23,576	—
— Smart Path Development Limited ( <i>Note i</i> )	3,626	3,680	—
— Tak Bo Hong ( <i>Note i</i> )	33,340	33,340	—
— Tak Bo Hong Company Limited ( <i>Note i</i> )	30	30	—
— Max Choice Limited ( <i>Note i</i> )	618	618	—
— V.M. Limited ( <i>Note i</i> )	—	5,934	—
— Shantou Baoma Processing Complex Company Limited ( <i>Note ii</i> )	1,112	319	11
	<u>74,081</u>	<u>73,671</u>	<u>11</u>

As at 31 December 2015, 2016 and 30 April 2017, there was no impairment for the amounts due from related parties, as the amounts have not past due and they have no history of default in payment.

*Notes:*

- (i) The balances are non-trade in nature, unsecured, interest-free and repayable on demand.
- (ii) The balance is trade in nature, unsecured interest-free and aged within 1–30 days.

The carrying amount of amount due from a shareholder, amount due from a related party and amount due from related companies approximate their fair values. The balances are denominated in the following currencies:

	As at 31 December		As at 30 April
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
HK\$	72,969	67,418	—
US\$	1,112	6,149	—
RMB	—	104	11
	74,081	73,671	11

(d) **Amounts due to related parties**

	As at 31 December		As at 30 April
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Amounts due to directors			
— Mr. Or Naam ( <i>Note i</i> )	26,050	27,648	—
— Ms. Chan ( <i>Note i</i> )	5,203	6,103	—
— Mr. Or Huen ( <i>Note i</i> )	5,380	4,645	—
Amounts due to a shareholder			
— Ms. Chu ( <i>Note i</i> )	—	11,046	—
Amount due to a related party			
— Mr. Or Tak Ming ( <i>Note i</i> )	—	1,356	—
Amount due to a related company			
— Meizhou City Hao Hong Crafts Commodity Company Limited ( <i>Note ii</i> )	2,273	—	—
— Shantou Baoma Processing Complex Company limited ( <i>Note ii</i> )	—	—	252
	38,906	50,798	252

*Notes:*

- (i) The balances are non-trade in nature, unsecured, interest-free and repayable on demand.
- (ii) The balances are trade in nature, unsecured, interest-free and the ageing analysis based on invoice date is as follows:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
1 to 30 days	—	—	252
Over 365 days	<u>2,273</u>	<u>—</u>	<u>—</u>
	<u>2,273</u>	<u>—</u>	<u>252</u>

The carrying amount of amounts due to directors, amount due to a shareholder, amount due to a related party and amount due to a related company approximate their fair values. The balances are denominated in the following currencies:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 April</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>2017</u>
			<u>HK\$'000</u>
HK\$	34,329	45,789	—
RMB	4,577	5,009	—
US\$	<u>—</u>	<u>—</u>	<u>252</u>
	<u>38,906</u>	<u>50,798</u>	<u>252</u>

**33 DIVIDEND**

No dividend has been paid or declared by the Company since its incorporation on 8 February 2017 and no dividend has been paid or declared by the companies now comprising the Group to the then equity holders of these companies in each of the years ended 31 December 2015 and 2016.

On 6 March 2017, the directors of Takbo Limited declared to its then shareholders, Mr. Or Naam and Ms. Chu a special dividend of HK\$8,940,000 and such dividend was distributed by way of setting-off against amounts due from related companies.

**34 SUBSEQUENT EVENTS**

- (a) The Reorganisation was completed on 25 September 2017 and the details are summarised in Note 1.2.
- (b) Pursuant to the resolution passed by the sole shareholder on 29 September 2017, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of an additional 9,962,000,000 shares of HK\$0.01 each.
- (c) Pursuant to the resolution passed by the sole shareholder on 29 September 2017, conditional on the share premium account of the Company being credited as a result of the issue of the shares by the Company under the share offer, the directors were authorised to capitalise an amount of approximately HK\$2,999,999.97 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 299,999,997 shares for allotment and issue to the shareholders whose names appear on the register of members of the Company in proportion to their existing shareholdings in the Company.

**III SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 April 2017 and up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by any of the companies now comprising the Group in respect of any period subsequent to 30 April 2017.

The information set forth in this appendix does not form part of the Accountant's Report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included in this prospectus for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

#### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following statement of our unaudited pro forma adjusted net tangible assets of the Group prepared in accordance with Rule 7.31 of the GEM Listing Rules is set out below to illustrate the effect of the Share Offer and the Capitalisation Issue on the net tangible assets of the Group attributable to the owners of the Company as at 30 April 2017 as if the Share Offer and the Capitalisation Issue had taken place on that date.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Share Offer and the Capitalisation Issue been completed as at 30 April 2017 or at any future dates.

	<b>Audited combined net tangible assets of the Group attributable to owners of the Company as at 30 April 2017 (Note 1)</b>	<b>Estimated net proceeds from the Share Offer (Note 2)</b>	<b>Unaudited pro forma adjusted net tangible assets attributable to owners of the Company</b>	<b>Unaudited pro forma adjusted net tangible assets per Share (Note 3)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
Based on an Offer Price of HK\$0.65 per Share	<u>62,297</u>	<u>50,875</u>	<u>113,172</u>	<u>0.2829</u>
Based on an Offer Price of HK\$0.69 per Share	<u>62,297</u>	<u>54,707</u>	<u>117,004</u>	<u>0.2925</u>

*Notes:*

- (1) The audited combined net tangible assets of the Group attributable to owners of the Company as at 30 April 2017 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to owners of the Company and intangible assets as at 30 April 2017 of approximately HK\$62,434,000 and HK\$137,000, respectively.

- (2) The estimated net proceeds from the Share Offer are based on the indicative Offer Price of HK\$0.65 and HK\$0.69 per Share after deduction of the estimated underwriting fees and other related expenses payable by the Company (excluding listing expenses of approximately HK\$11,385,000 which have been charged to our combined income statements up to 30 April 2017) and takes no account of any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate.
- (3) The unaudited pro forma net tangible assets per Share is determined at after the adjustments referred to in the preceding paragraphs and on the basis that 400,000,000 Shares were in issue assuming that the Share Offer and the Capitalisation Issue have been completed on 30 April 2017 but takes no account of any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 April 2017.

**B. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the Directors of Takbo Group Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Takbo Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 30 April 2017, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 13 October 2017, in connection with the proposed public offering and placing of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed public offering and placing on the Group's financial position as at 30 April 2017 as if the proposed public offering and placing had taken place at 30 April 2017. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the period ended 30 April 2017, on which an accountant's report has been published.

**Directors' Responsibility for the Unaudited Pro Forma Financial Information**

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*



**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed public offering and placing at 30 April 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

### **Opinion**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the Listing Rules.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 13 October 2017

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 February 2017 under the Companies Law. The Company's constitutional documents consist of its Memorandum of Association and its Articles of Association.

## **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, *inter alia*, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## **2. ARTICLES OF ASSOCIATION**

The Articles were conditionally adopted on 29 September 2017 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

### **(a) Shares**

#### *(i) Classes of shares*

The share capital of our Company consists of ordinary shares.

#### *(ii) Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of

that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) *Alteration of capital*

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as the directors may determine;
- (iv) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) *Transfer of shares*

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by our Directors is paid to our Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of our Company.

*(v) Power of our Company to purchase its own shares*

Our Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by Stock Exchange.

Where our Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by our Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

(vi) *Power of any subsidiary of our Company to own shares in our Company*

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

(vii) *Calls on shares and forfeiture of shares*

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(b) Directors**

(i) *Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re election or appointment but as between persons who became or were last re elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and members of our Company may by ordinary resolution appoint another in his place. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to our Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of our Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the



opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) *Power to dispose of the assets of our Company or any of its subsidiaries*

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting.

(iv) *Borrowing powers*

The board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

(v) *Remuneration*

The ordinary remuneration of the Directors is to be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and ex employees of our Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vi) Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

*(vii) Loans and provision of security for loans to Directors*

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if our Company were a company incorporated in Hong Kong.

*(viii) Disclosure of interests in contracts with our Company or any of its subsidiaries*

A Director may hold any other office or place of profit with our Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also

cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of our Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his close associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;

- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

**(c) Proceedings of the Board**

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

**(d) Alterations to constitutional documents and our Company's name**

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

**(e) Meetings of members**

*(i) Special and ordinary resolutions*

A special resolution of our Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given held in accordance with the Articles.

(ii) *Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where our Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) *Annual general meetings*

The Company must hold an annual general meeting of our Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

(iv) *Notices of meetings and business to be conducted*

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting, particulars of resolutions to be considered at the meeting, and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of our Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to, among others, the auditors for the time being of our Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of our Company personally, by post to such member's registered address, by advertisement in newspapers in accordance with the requirements of the Stock Exchange or placing it on the Company's website or the website of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by our Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of our Company.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(f) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorised by the board or our Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, our Company may send to such persons summarised financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of our Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

**(g) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Articles provide dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.



Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

**(h) Inspection of corporate records**

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

**(i) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

**(j) Procedures on liquidation**

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if our Company is wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if our Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different

classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(k) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Company operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of

shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

**(c) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Disposal of assets**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from 28 February 2017.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of our Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's Articles.

**(n) Register of members**

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(o) Register of Directors and Officers**

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

**(p) Beneficial Ownership Register**

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.



**(q) Winding up**

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

**(r) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(s) Take-overs**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(t) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**4. GENERAL**

Conyers Dill & Pearman, our Company's special legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection — Documents available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**FURTHER INFORMATION ABOUT OUR COMPANY AND ITS SUBSIDIARIES****1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 8 February 2017. Our Company has established a place of business in Hong Kong at Room B, 35th Floor, EGL Tower, 83 Hung To Road, Kwun Tong, Kowloon, Hong Kong and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 7 March 2017. In connection with such registration, Mr. Or Naam has been appointed as the authorised representative of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, its operations are subject to the Cayman Islands company law and its constitution, which comprises of a memorandum of association and the articles of association. A summary of certain provisions of its constitution and relevant aspects of the Cayman Companies Law is set out in Appendix III to this prospectus.

**2. Changes in authorised and issued share capital of our Company**

Our Company was incorporated in the Cayman Islands on 8 February 2017. The Subscriber Share was allotted and issued to the initial subscriber and then transferred to Mr. Or Naam on the same date. On 1 March 2017, Mr. Or Naam transferred the Subscriber Share to Classic Charm at nil consideration. The authorised share capital of our Company as at the date of its incorporation was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each.

On 29 September 2017, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each by the creation of an additional 9,962,000,000 Shares of HK\$0.01 each which rank *pari passu* in all respect with the existing Shares.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company within two years immediately preceding the date of this prospectus and up to the Latest Practicable Date.

**3. Resolutions in writing of the sole Shareholder passed on 29 September 2017**

Pursuant to the resolutions in writing passed by the Sole Shareholder on 29 September 2017:

- (a) our Company adopted the new Memorandum with immediate effect and conditionally adopted the new Articles with effect from the Listing Date;
- (b) our Company increased its authorised share capital from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each;

- (c) conditional on (i) the Listing Division of the Stock Exchange granting the listing of, and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus; (ii) the Offer Price having been fixed on or about the Price Determination Date; (iii) the execution and delivery of the Placing Underwriting Agreement on or about the Price Determination Date; and (iv) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
- (i) the Share Offer was approved and our Directors were authorised to allot and issue the Offer Shares under the Share Offer;
  - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in “— Share Option Scheme”, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for the Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;
  - (iii) conditional on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise approximately HK\$2,999,999.97 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 299,999,997 Shares for allotment and issue to the Shareholders whose names appear on the register of members of our Company at the close of business on 29 September 2017 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted and issued) to their then existing respective shareholdings in our Company so that the Shares allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;
  - (iv) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles, or pursuant to the exercise of any options which have been or may be granted under the Share Option Scheme, or under the Share Offer or the Capitalisation Issue, Shares with an aggregate nominal value of not exceeding the sum of (aa) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme); and (bb) the

aggregate nominal value of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in paragraph (v) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors as set out in this paragraph (iv), whichever occurs first; and

- (v) a general unconditional mandate (the “Repurchase Mandate”) was given to our Directors to exercise all powers of our Company to purchase the Shares on the Stock Exchange or other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the GEM Listing Rules, with an aggregate nominal value of not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme) until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to our Directors as set out in this paragraph (v), whichever occurs first.

#### **4. Group reorganisation**

The companies comprising our Group underwent a reorganisation to rationalise our Group’s structure in preparation for the Listing. For information relating to the Reorganisation, please refer to “History, Reorganisation and Group Structure — Reorganisation”.

#### **5. Changes in share capital of subsidiaries**

Our Company’s subsidiaries are referred to in the Accountant’s Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in “History, Reorganisation and Group Structure”, there are no changes in the share capital or registered capital of our subsidiaries during the two years preceding the date of this prospectus.

## 6. Repurchase by our Company of its own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

### (a) *Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

#### (i) *Shareholders' approval*

All proposed repurchase of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to a resolution in writing passed by the sole Shareholder on 29 September 2017, the Repurchase Mandate was given to our Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme). The Repurchase Mandate will expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the articles of association of our Company or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

#### (ii) *Source of funds*

Repurchase by our Company must be paid out of funds legally available for the purpose in accordance with our Company's Memorandum and Articles of Association and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Under Cayman Islands law, any repurchase by our Company may only be made out of profits of our Company, or from sums standing to the credit of our share premium account, or out of the proceeds of a fresh issue of share made for the purpose of the repurchase, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of profits of our Company or from sums standing to the credit of our Company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital.

(iii) *Connected parties*

A company is prohibited from knowingly repurchasing securities from a “core connected person”, that is, a director, chief executive or substantial shareholder of our Company or any of their respective close associates and a core connected person shall not knowingly sell his securities to our Company, on the Stock Exchange.

**(b) *Reasons for Repurchase***

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchase may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchase will benefit our Company and the Shareholders.

**(c) *Funding of repurchase***

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association, the GEM Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

The exercise in full of the Repurchase Mandate, on the basis of 400,000,000 Shares in issue immediately after the Listing, would result in up to 40,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

**(d) *General***

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or its subsidiaries if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands.

No connected person (as defined in the GEM Listing Rules) has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

## FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

### 7. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the deed of assignment of trademarks dated 23 February 2017 entered into between V.M. (assignor) and Takbo (as assignee) pursuant to which V.M. assigned all its rights and interests in relation to certain trademarks registered and/or being applied for registration in the U.S. and Mexico, together with the goodwill, to Takbo at the consideration of HK\$1;
- (b) the sale and purchase agreement dated 25 September 2017 entered into between Mr. Or Naam, Ms. Chu and our Company pursuant to which Mr. Or Naam and Ms. Chu transferred their entire shareholding interest in Takbo to our nominee, Full Colour, in consideration of the (a) allotment and issue of one Share, credited as fully paid, by our Company to Classic Charm; and (b) crediting the Subscriber Share as fully paid;
- (c) the sale and purchase agreement dated 25 September 2017 entered into between Mr. Or Naam, Ms. Chan and our Company pursuant to which Mr. Or Naam and Ms. Chan transferred their entire shareholding interest in B&B to our nominee, Dawning Beauty, in consideration of the allotment and issue of one Share, credited as fully paid, by our Company to Classic Charm;
- (d) the Deed of Indemnity entered into by our Controlling Shareholders in favour of our Company dated 29 September 2017, details of which are set out in “— Other information — 14. Tax indemnity”;
- (e) the Deed of Non-Competition entered into by our Controlling Shareholders in favour of our Company dated 29 September 2017, details of which are set out in “Relationship with Our Controlling Shareholders — Non-Competition undertaking”; and





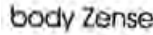


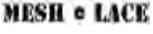








- (f) the Public Offer Underwriting Agreement entered into between our Company, the executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Manager and the Public Offer Underwriters dated 12 October 2017, details of which are set out in “Underwriting”.

## 8. Intellectual property rights of our Group

### (a) Trademarks




As at the Latest Practicable Date, our Group has registered the following trademarks:

No.	Trademark	Registration number	Name of registered owner	Class	Place of registration	Due date of declaration of use (Note 1)	Expiry date/ Renewal due date (Note 2)
1.		15235984	Takbo	3	China	N/A	13 October 2025
2.		3546971	Cosbe	3	China	N/A	6 October 2025
3.		3616099	Cosbe	3	China	N/A	20 April 2018
4.		4729557	Cosbe	3	China	N/A	27 February 2019
5.		4026060	Cosbe	3	China	N/A	13 December 2026
6.		303966517	Takbo	3, 18	Hong Kong	N/A	16 November 2026
7.		5050452	Takbo	3	United States	27 September 2022	27 September 2026
8.		4791921	Takbo	3	United States	11 August 2021	11 August 2025
9.		5050329	Takbo	3	United States	27 September 2022	27 September 2026
10.		5277679	Takbo	18	United States	29 August 2023	29 August 2027
11.		4984350	Takbo	3	United States	21 June 2022	21 June 2026
12.		5277678	Takbo	18	United States	29 August 2023	29 August 2027
13.		1577136	Takbo	3	Mexico	N/A	18 June 2025
14.		5193070	Takbo	3	United States	25 April 2023	25 April 2027

*Notes:*

1. Due date of declaration of use is only applicable to the trademarks registered in the United States.
2. Renewal due date is only applicable to the trademarks registered in the United States.

As at the Latest Practicable Date, our Group had applied for registration of the following trademarks:

<u>No.</u>	<u>Trademark</u>	<u>Trademark application number/ Serial number</u>	<u>Name of applicant</u>	<u>Class</u>	<u>Place of application</u>	<u>Filing date</u>
1.		87257812	Takbo	3, 18	United States	5 December 2016
2.		22405447	Takbo	3	China	27 December 2016
3.		22447331	Takbo	18	China	29 December 2016

**(b) Domain name**

As at the Latest Practicable Date, our Group had registered the following domain name:

<u>Domain name</u>	<u>Date of registration</u>	<u>Expiry date</u>
takbogroup.com	2 November 2016	2 November 2020

Information contained in the above website does not form part of this prospectus.

Save as disclosed above, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material to the business of our Group.

**FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF**

**9. Directors**

**(a) Particulars of service contracts and letters of appointment**

Each of Mr. Or Naam, Ms. Chan and Mr. Or Huen, being all the executive Directors, has entered into a service contract with our Company on 29 September 2017. Particulars of these contracts, except as indicated, are in all material respects identical and are set out below:

- (i) each service contract is of three years commencing from the Listing Date and will continue thereafter until terminated in accordance with the terms of the service agreement;

- (ii) the initial annual salary for each of Mr. Or Naam, Ms. Chan and Mr. Or Huen is set out below, such salary to be reviewed annually by the Board and the remuneration committee of our Company; and
- (iii) each of these executive Directors is entitled to such management bonus by reference to the consolidated net profits of our Group after taxation and minority interests but before extraordinary items as the Board and the remuneration committee of our Company may approve, provided that the relevant executive Director shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board approving the amount of annual salary, management bonus and other benefits payable to him.

The current basic annual salaries of the executive Directors are as follows:

<u>Name</u>	<u>Amount</u>
	<i>HK\$'000</i>
Mr. Or Naam	HK\$1,235
Ms. Chan	HK\$1,105
Mr. Or Huen	HK\$1,200

Each of Mr. Tan, Mr. Sung and Mr. Wong, being all the independent non-executive Directors, has entered into a letter of appointment with our Company on 29 September 2017. Each letter of appointment is for an initial term of one year commencing on the Listing Date, until terminated by either party giving at least one month's notice in writing. Each independent non-executive Director is entitled to an annual director's fee of HK\$240,000.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of its subsidiaries (other than contracts expiring or determinable by our Group within one year without the payment of compensation (other than statutory compensation)).

**(b) Directors' remuneration**

During the Track Record Period, the aggregate of the remuneration (including salaries and allowance, if any) paid granted by our Group to our Directors was approximately HK\$5.1 million, HK\$8.1 million, HK\$1.5 million and HK\$1.6 million, respectively.

Under the arrangements currently in force, the aggregate emoluments (excluding any discretionary bonus, if any, payable to our Director) payable by our Group to and benefits in kind receivable by our Directors for the year ending 31 December 2017 is estimated to be approximately HK\$5.7 million.

None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the two years ended 31 December 2016 and the four months ended 30 April 2017 (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two years ended 31 December 2016 and the four months ended 30 April 2017.

**(c) *Interests and short positions of Directors in the shares, underlying shares or debentures of our Company and its associated corporations***

Immediately following completion of the Share Offer and the Capitalisation Issue (but not taking into account of any Shares that may be allotted and issued pursuant to the exercise of any option(s) which may be granted under the Share Option Scheme), the interests or short positions of our Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, in each case once the Shares are listed on the Stock Exchange, will be as follows:

<u>Name</u>	<u>Capacity/ Nature of interest</u>	<u>Number of Shares held after the Share Offer<sup>Note 1</sup></u>	<u>Percentage of shareholding after the Share Offer</u>
Mr. Or Naam	Interest in controlled corporation <sup>Note 2</sup>	300,000,000 Shares (L)	75%
Ms. Chan	Interest in controlled corporation <sup>Note 2</sup>	300,000,000 Shares (L)	75%

*Notes:*

- (1) The Letter "L" denotes the person's long position in the relevant Shares.
- (2) The entire issued share capital of Classic Charm is legally and beneficially owned as to 50.8% by Mr. Or Naam, as to 39.7% by Ms. Chu and 9.5% by Ms. Chan. As Mr. Or Naam, Ms. Chan and Ms. Chu are parties acting in concert, they are deemed to be interested in 300,000,000 Shares held by Classic Charm by virtue of the SFO.

**10. Interests and short positions discloseable under the SFO and substantial shareholders**

So far as our Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, based on the information available on the Latest Practicable Date, the following persons/entities (not being our Directors or chief executive of our Company) will have an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of our Company required to be kept under section 336 of the SFO, or who will be, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other members of our Group:

<b>Name</b>	<b>Capacity/ Nature of interest</b>	<b>Number of Shares held after the Share Offer<sup>Note 1</sup></b>	<b>Percentage of shareholding after the Share Offer</b>
Classic Charm	Beneficial owner	300,000,000 Shares (L)	75%
Ms. Chu	Interest in controlled corporation <sup>Note 2</sup>	300,000,000 Shares (L)	75%
Mr. TM Or	Family interest <sup>Note 3</sup>	300,000,000 Shares (L)	75%

*Notes:*

- (1) The Letter "L" denotes the person's long position in the relevant Shares.
- (2) The entire issued share capital of Classic Charm is legally and beneficially owned as to 50.8% by Mr. Or Naam, 39.7% by Ms. Chu and 9.5% by Ms. Chan. As Mr. Or Naam, Ms. Chan and Ms. Chu are parties acting in concert, they are deemed to be interested in the 300,000,000 Shares held/owned by Classic Charm by virtue of the SFO.
- (3) Mr. TM Or is the spouse of Ms. Chu, as such, Mr. TM Or is deemed to be interested in all the Shares held/owned by Ms. Chu (through Classic Charm) by virtue of the SFO.

**11. Related party transactions**

During the two years immediately preceding the date of this prospectus, our Group engaged in the related party transactions as mentioned in Note 32 of the Accountant's Report set out in Appendix I to this prospectus.

**12. Disclaimers**

Save as disclosed in this prospectus:

- (a) and taking no account of any Shares which may be taken up or acquired under the Share Offer or any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, our Directors are not aware of any person who immediately following completion of the Share Offer and the Capitalisation Issue will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, either directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of our Company or any other members of our Group;
- (b) none of our Directors or chief executive of our Company has any interests and short positions in the Shares, underlying Shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, in each case once the Shares are listed on the Stock Exchange;
- (c) none of our Directors nor the experts named in “— Qualifications and consents of experts” has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of our Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of our Group nor will any Director apply for Offer Shares either in his/her own name or in the name of a nominee;
- (d) none of our Directors nor the experts named in “— Qualification and consents of the experts” is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (e) none of the experts named in “— Qualifications and consents of experts” has any shareholding in any member in our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member in our Group; and

- (f) none of our Directors has entered or has proposed to enter into any service agreements with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

## SHARE OPTION SCHEME

### 13. Share Option Scheme

Our Company has conditionally adopted the Share Option Scheme, which was approved by written resolutions passed by the sole Shareholder on 29 September 2017. The following is a summary of the principal terms of the Share Option Scheme but does not form part of, nor was it intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme:

The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

**(a) *Purpose of the Share Option Scheme***

The purpose of the Share Option Scheme is to advance the interests of our Company and the Shareholders by enabling our Company to grant options to attract, retain and reward the eligible persons and to provide the eligible persons an incentive or reward for their contribution to our Group and by enabling such persons' contribution to further advance the interests of our Group.

**(b) *Participants of the Share Option Scheme and eligibility criteria***

The eligible persons of the Share Option Scheme to whom options may be granted by the Board shall include (collectively "Eligible Persons"):

- (i) any directors (whether executive or non-executive and whether independent or not) and any employee (whether full time or part time) of any member of our Group (collectively "Employee");
- (ii) any consultants or advisers (in the areas of legal, technical, financial or corporate managerial) of our Group (whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid); any provider of goods and/or services to our Group; any customer of our Group; or any holder of securities issued by any member of our Group; and
- (iii) any other person, who at the sole discretion of the Board, has contributed to our Group (the assessment criteria of which are (1) such person's contribution to the development and performance of our Group; (2) the quality of work performed by such person for our Group; (3) the initiative and commitment of such person in performing his duties; (4) the length of service or contribution of such person to our Group; and (5) such other factors as considered to be applicable by the Board).

The Board may in its absolute discretion specify such conditions as it thinks fit when granting an option to an Eligible Person (including, without limitation, as to any minimum period an option must have been held or the minimum period of service or relationship with any member of our Group to be achieved before an option can be exercised (or any part thereof), to the extent of the option which can be exercised at any material time, or any performance criteria which must be satisfied by the Eligible Person, our Company, and its subsidiaries, before an option may be exercised), provided that such conditions shall not be inconsistent with any other terms and conditions of the Share Option Scheme and the GEM Listing Rules.

**(c) *Life of the Share Option Scheme***

Our Company may, by ordinary resolution in general meeting, or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further option shall be offered or granted but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect and options granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

Subject to the aforesaid, the Share Option Scheme shall be valid and effective for a period of ten years commencing from the date of adoption, after which period no further options will be offered or granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects with respect to options granted during the life of the Share Option Scheme.

**(d) *Subscription price***

The subscription price in respect of any option shall, subject to any adjustments made pursuant to the terms of the Share Option Scheme, be a price determined by the Board and notified to each grantee and shall be at least the highest of:

- (i) the closing price per Share as stated in the Stock Exchange's daily quotation sheet on the offer date which must be a business day;
- (ii) the average of the closing prices per Share as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date; or
- (iii) the nominal value of the Share on the offer date.

**(e) *Acceptance of offers***

An offer shall remain open for acceptance by the Eligible Person concerned for such period as determined by the Board, being a date not later than ten Business Days after the offer date by which the Eligible Person must accept the offer or be deemed to have declined it, provided that no such offer shall be open for acceptance after the tenth anniversary of the date of adoption of the Share Option Scheme or after the Share Option Scheme has been terminated in accordance with the provisions of the Share Option Scheme.



The amount payable by the grantee to our Company on acceptance of the offer shall be a nominal amount to be determined by the Board.

**(f) *Maximum number of Shares available for subscription***

- (i) The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other Share Option Schemes shall not in aggregate exceed 10% of the total number of Shares in issue as at the effective date of the Share Option Scheme. i.e. as at the Listing Date, 40,000,000 Shares, on the basis of 400,000,000 Shares in issue immediately after the Listing, unless our Company obtains a fresh approval from the Shareholders pursuant to paragraph (f)(ii) below.
- (ii) Our Company may seek approval of Shareholders in general meeting to renew the 10% limit set out in paragraph (f)(i) above such that the total number of Shares in respect of which options may be granted by the Board under the Share Option Scheme and any other share option schemes of our Company in issue shall not exceed 10% of the total number of Shares in issue as at the date of approval of the renewed limit.
- (iii) Our Company may grant options to specified participant(s) beyond the 10% limit set out in paragraph (f)(i) above provided that the options granted in excess of such limit are specifically approved by the Shareholders in general meeting and the participants are specifically identified by our Company before such approval is sought. In seeking such approval, a circular must be sent to the Shareholders containing the required details in accordance with Chapter 23 of the GEM Listing Rules.
- (iv) Notwithstanding the foregoing and subject to the paragraph (g) below, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme together with any options outstanding and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company in issue shall not exceed 30% (or such higher percentage as may be allowed under the GEM Listing Rules) of the total number of Shares in issue from time to time.

**(g) *Maximum entitlement of each Eligible Person***

The total number of Shares issued and to be issued upon exercise of the options granted to each Eligible Person (including both exercised and outstanding options under the Share Option Scheme) in any twelve-month period must not exceed 1% of the issued share capital of our Company.

Where any further grant of options to an Eligible Person would result in excess of such limit shall be subject to the approval of the Shareholders at general meeting with such Eligible Person and his close associates (or his associates if the Eligible Person is a connected person) abstaining from voting.

In seeking such approval, a circular must be sent to the Shareholders containing the required details in accordance with Chapter 23 of the GEM Listing Rules.

**(h) *Grants of options to certain connected persons***

- (i) Any grant of options to a Director, chief executive of our Company or any of their respective associates must be approved by all of the independent non-executive Directors (excluding any independent non-executive Director who is also the grantee).
- (ii) Where options are proposed to be granted to a substantial Shareholder or an independent non-executive Director or any of their respective associates, and the proposed grant of options will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the twelve-month period up to and including the date of such grant representing in aggregate over 0.1% of the issued share capital of our Company and having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million, such grant of options must be subject to the approval of the Shareholders at general meeting. The grantee involved in such proposed grant of options, his associates and all core connected persons of our Company must abstain from voting in such general meeting (except that any such persons may vote against the proposed grant provided that his intention to do so has been stated in the relevant circular to the Shareholders).

In seeking such approval, a circular must be sent to the Shareholders containing the required details in accordance with Chapter 23 of the GEM Listing Rules.

Any change in the terms of the options granted to a substantial Shareholder or an independent non-executive Director of our Company, or any of their respective associates must also be approved by the Shareholders in general meeting.

**(i) *Restrictions on the times of grant of options***

- (i) No offer for the grant of options may be made after any inside information has come to the knowledge of our Company until such inside information has been announced pursuant to the requirements of the GEM Listing Rules and the SFO. No option may be granted during the period commencing one month immediately preceding the earlier of:
  - (a) the date of the Board meeting (such date to first be notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the GEM Listing Rules); and

- (b) the deadline for our Company to publish an announcement of the results for any year, half-year or quarter-year period or any other interim period (whether or not required under the GEM Listing Rules),

and ending on the date of the results announcement. No option may be granted during any period of delay in publishing a results announcement.

- (ii) Further to the restrictions in paragraph (i) above, no option may be granted to a Director on any day on which financial results of our Company are published and:

- (a) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (b) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

**(j) *Time of exercise of option***

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to the grantee which the Board may in its absolute discretion determine, save that such period shall not be more than ten years from the date of acceptance of the offer (subject to the provisions for early termination in accordance with the Share Option Scheme) (the “Option Period”).

**(k) *Rights are personal to grantee***

An option shall be personal to the grantee and shall not be assignable nor transferable, and no grantee shall in any way sell, transfer, assign, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt to do so. Any breach of the foregoing shall entitle our Company to cancel any outstanding option or part thereof granted to such grantee.

**(l) *Rights on ceasing employment***

In the case of the grantee being an Employee or a director of our Group leaves the services of our Group by reason other than death or on one or more of the grounds specified in paragraph (q)(v), or because his employing company ceases to be a member of our Group, the grantee may exercise the option up to his entitlement at the date of cessation (to the extent he is entitled to exercise at the date of cessation but not already exercised) within a period being the earlier of (i) three months (or such other period as the Board may determine) following the date of such cessation, which date shall be the last actual working day with our Group whether salary is paid in lieu of notice or not or the last date of appointment as director of our Group, as the case may be; or (ii) the expiration of the relevant Option Period. Any

options not so exercised shall lapse and terminate at the end of the said period provided that in any such case, our Directors in their absolute discretion may otherwise determine subject to such conditions or limitations as our Directors may decide.

**(m) *Rights on death***

In the case of the grantee ceases to be an Eligible Person by reason of death, he or (as the case may be) his personal representatives may exercise all or part of his options (to the extent he is entitled to exercise at the date of cessation but not already exercised) within a period being the earlier of (i) six months after he so ceases to be an Eligible Person; or (ii) the expiration of the relevant Option Period. Any options not so exercised shall lapse and terminate at the end of the said period provided that in any such case, our Directors in their absolute discretion may otherwise determine subject to such conditions or limitations as our Directors may decide.

**(n) *Rights on a general offer***

- (i) If, in consequences of any general offer made to the holders of Shares (being an offer made in the first instance on a condition such that, if it is satisfied, the offeror will have control of our Company) or otherwise, any person shall have obtained control (as defined in the Takeovers Code) of our Company, then our Directors shall as soon as practicable thereafter notify every grantee accordingly and each grantee shall be entitled to exercise all or any of his options (to the extent he is entitled but not exercised) at any time before the earlier of (1) the expiry of the Option Period, or (2) the fourteenth day following the date on which the general offer becomes or is declared unconditional to exercise any option in whole or in part, and to the extent that it has not been so exercised, any options shall upon the expiry of such period cease and terminate provided that if, during such period, such person becomes entitled to exercise rights of compulsory acquisition of Shares and gives notice in writing to any holders of Shares that he intends to exercise such rights, options shall be and remain exercisable until the earlier of (1) the expiry of the Option Period or (2) the fourteenth day from the date of such notice and, to the extent that any options which have not been exercised upon the expiry of such period, shall thereupon cease and terminate.
- (ii) If a general offer by way of a scheme of arrangement is made to all the Shareholders and the Share Option Scheme has been approved by the necessary number of Shareholders at the requisite meetings, our Company shall forthwith notify all the grantees and any grantee (or his personal representatives) may thereafter (but before such time as shall be notified by our Company) by notice in writing to our Company exercise the option (to the extent he is entitled but not exercised) to its full extent or to the extent specified in such notice. Any options which have not been exercised upon the expiry of such period as specified in the notice shall thereupon cease and terminate.

**(o) *Rights on winding-up***

In the event that a notice is given by our Company to the Shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company other than for the purposes of a reconstruction, amalgamation or scheme of arrangement, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all grantees (together with a notice of the existence of the provisions of this paragraph) and thereupon, each grantee (or his personal representatives) shall be entitled to exercise all or any of his options at any time not later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot and issue such number of Shares to the grantee credited as fully paid which falls to be issued on such exercise and register the grantee as holder thereof in the branch register of members of our Company maintained in Hong Kong.

**(p) *Right on a compromise or scheme of arrangement***

If a compromise or arrangement between our Company and the Shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, our Company shall give notice thereof to the grantee (together with a notice of the existence of the provisions of this paragraph) on the same date or soon after it despatches the notice to each member or creditor of our Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his personal representatives) may by notice in writing to our Company accompanied by the remittance for the aggregate subscription price in respect of the number of option exercised under such notice (such notice to be received by our Company not later than two Business Days prior to the proposed meeting) either to its full extent or to the extent specified in such notice, and our Company shall as soon as possible and in any event no later than the Business Day immediately prior to the date of the proposed meeting referred to above, allot and issue such number of Shares credited as fully paid, to the grantee which falls to be issued on such exercise and register the grantee as holder thereof in the branch register of members of our Company maintained in Hong Kong.

**(q) *Lapse of option***

The right to exercise an option shall lapse automatically (to the extent not already exercised) immediately upon the earliest of:

- (i) subject to paragraphs (l)–(p), the expiry of the Option Period;
- (ii) the expiry of any of the periods referred to in paragraphs (l)–(n);

- (iii) subject to paragraph (o), the date of the commencement of the winding up of our Company;
- (iv) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (p);
- (v) in the event that the grantee is an Employee or a director of our Group, the date on which the grantee ceases to be an Eligible Person by reason of summary dismissal for misconduct or other breach of the terms of his employment or directorship or other contract constituting him an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer or a company would be entitled to terminate his employment or directorship at common law or pursuant to any applicable laws or under the grantee's service contract with our Company or the relevant subsidiary of our Company. A resolution of the Board or the board of directors of the relevant subsidiary of our Company to the effect that the employment or other relevant contract of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph (q)(v) shall be conclusive and binding on the grantee;
- (vi) the date on which the grantee ceases to be an Eligible Person by reason of termination of his relationship (whether by appointment or otherwise) with our Group or on any one or more of the following grounds (other than by reason of death or on one or more of the grounds specified in sub-paragraph (q)(v)) that he has become unable to pay his debts (within the meaning of the Bankruptcy Ordinance, Chapter 6 of the Laws of Hong Kong) or has become otherwise insolvent or has made any arrangement or composition with his creditors generally, or arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) has committed any act which is prejudicial to or not in the interests of our Company or any company in our Group. A resolution of the Board or the board of directors of the relevant subsidiary of our Company to the effect that the relationship with a grantee (other than an Employee or a director of our Group) has or has not been terminated and as to the date of such termination shall be conclusive and binding on the grantee;
- (vii) the date on which the grantee commits a breach of paragraph (k); or
- (viii) the date on which the option is cancelled by the Board as provided in paragraph (u).

Our Company shall owe no liability to any grantee for the lapse of any option under this paragraph (q).

**(r) *Ranking of Shares***

The Shares to be allotted and issued upon the exercise of an option shall be subject to the Memorandum and Articles and the laws of the Cayman Islands for the time being in force and shall rank *pari passu* in all respects with the fully-paid Shares in issue of our Company as at the date of allotment and will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the date of allotment, provided always that when the date of exercise of the option falls on a date upon which the register of members of our Company is closed then the exercise of the options shall become effective on the first Business Day on which the register of members of our Company is re-opened.

**(s) *Reorganisation of capital structure***

In the event of any alteration to the capital structure of our Company whilst any option remains exercisable, arising from capitalisation of profits or reserves, rights issue, consolidation, re-classification or subdivision of Share or reduction of the share capital of our Company in accordance with the legal requirements or requirements of the Stock Exchange, other than any alteration in the capital structure of our Company as a result of an issue of Shares as consideration in a transaction to which our Company is a party, adjustment (if any) shall be made to:

- (i) the number or nominal value of Shares subject to the option so far as unexercised; and/or
- (ii) the subscription price for the Shares subject to the option so far as unexercised; and/or
- (iii) the Shares to which the option relates; and/or
- (iv) any combination thereof as the auditors or the independent financial adviser to our Company (acting as expert not arbitrator) shall at the request of our Company certify in writing to the Board either generally or as regards any particular grantee that the adjustments are in compliance with Rule 23.03(13) of the GEM Listing Rules and the notes thereto.

Any such adjustments must give a grantee the same proportion of the equity capital of our Company as to which that grantee was previously entitled, and any adjustments so made shall be in compliance with the GEM Listing Rules and such applicable guidance and/or interpretation of the GEM Listing Rules from time to time issued by the Stock Exchange (including, without limitation, the “Supplemental Guidance on GEM Listing Rule 23.03(13) and the Notice immediately after the Rule” attached to the letter of the Stock Exchange dated 5 September 2005 to all issuers relating to the Share Option Scheme) but no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its

nominal value. The capacity of the auditors or the independent financial adviser to our Company in this paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on our Company and the grantees. The costs of the auditors or the independent financial adviser to our Company shall be paid by our Company. Notice of such adjustment shall be given to the grantees by our Company.

**(t) *Alteration to the Share Option Scheme and the terms of options granted under the Share Option Scheme***

The Board may from time to time in its absolute discretion waive or amend any terms of the Share Option Scheme at such time and in such manner as it deems desirable to the extent permissible under the provisions of the GEM Listing Rules in relation to the Share Option Scheme and all applicable laws in respect thereof.

For the avoidance of doubt, except with the prior approval of the Shareholders in general meeting (with the Eligible Persons and their associates abstaining from voting), the Board may not amend:

- (i) any of the provisions of the Share Option Scheme relating to matters contained in Rule 23.03 of the GEM Listing Rules to the advantage of the Eligible Persons or grantees;
- (ii) any terms and conditions of the Share Option Scheme which are of a material nature or any terms of options granted except where such alteration take effect automatically under the existing terms of the Share Option Scheme; and
- (iii) any provisions on the authority of the Board in relation to any alteration to the terms of the Share Option Scheme.

No such amendments shall be altered to the advantage of grantees except with the prior approval of the Shareholders in general meeting (with Eligible Persons and their respective associates abstained from voting). No such alterations shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alterations except with the consent or sanction in writing of such majority of the grantees as would be required of the Shareholders under the Articles for the time being for a variation of the rights attached to the Shares, provided that this restriction should not apply to any amendment made by the Board at the request of the Stock Exchange or other regulatory body for the purpose of ensuring that the Share Option Scheme complies with, among other applicable laws, the requirements of such exchange or other regulatory body on which the Shares are in the course of being listed or from time to time listed or which may have or exercise regulatory powers or jurisdiction in relation to our Company. Any amended terms of the Share Option Scheme or options shall still comply with the relevant requirements of Chapter 23 of the GEM Listing Rules (subject to such waiver as may be granted by the Stock Exchange from time to time) and shall automatically take effect on all outstanding options.



(u) *Cancellation of options granted*

The Board may cancel an option granted but not exercised with the approval of the grantee of such option. No compensation shall be payable to the grantee for cancellation of the options granted but not exercised.

(v) *Termination*

Our Company, by ordinary resolution in general meeting, or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further option will be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect and options granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

As at the date of this prospectus, no Option has been granted or agreed to be granted by our Company under the Share Option Scheme.

## OTHER INFORMATION

### 14. Tax indemnity

Each of Mr. Or Naam, Ms. Chan, Ms. Chu and Classic Charm (collectively the “**Indemnifiers**”) has entered into the Deed of Indemnity with and in favour of our Company (for ourselves and as trustee for each of our subsidiaries) being one of the material contracts referred to in “— Further information about the business of our Group — 7. Summary of material contracts” to provide indemnities on a joint and several basis in respect of, among other matters, the following:

- (a) any duty which is or hereafter becomes payable by any member of our Group by virtue of section 35 of the Estate Duty Ordinance and under the provisions of section 43 of the Estate Duty Ordinance by reason of the death of any person and by reason of the assets of our Group members;
- (b) any amount recovered against any member of our Group under provisions of section 43(7) of the Estate Duty Ordinance in respect of any duty payable under section 43(1)(c) or 43(6) of the Estate Duty Ordinance by reason of the death of any person and by reason of the assets of our Group members;
- (c) any amount of duty which any member of our Group is obliged to pay by virtue of section 43(1)(c) of the Estate Duty Ordinance;
- (d) any taxation which might be payable by any member of our Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or up to the Listing Date;

- (e) any amount of tax falling on any member of our Group anywhere in the world, whether arising prior to or after the Listing and resulting from any member of our Group conducting its business operations in such jurisdictions prior to Listing and shall include any costs, expenses, interests, penalties or other liabilities in connection therewith;
- (f) any and all expenses, payments, sums, outgoings, fees, demands, claims, actions, proceedings, judgments, damages, losses, costs (including but not limited to legal and other professional costs), charges, contributions, liabilities, fines, penalties (collectively the “**Costs**”) in connection with any failure, delay or defects of corporate or regulatory non-compliance under, or any breach of any provision of, the Companies Ordinance or any other applicable laws, rules or regulations by any member of our Group on or before the date on which the Share Offer becomes unconditional (“**Effective Date**”); and
- (g) any and all Costs which any member of our Group may incur, suffer or accrue, directly or indirectly, from or on the basis of or in connection with any failure to obtain the necessary licences, consents or permits under the Hong Kong Laws or PRC Laws for any Group member’s valid and legal establishment and/or operation on or before the Effective Date.

Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in the Cayman Islands, BVI, Hong Kong and the PRC, being jurisdictions in which the companies comprising our Group are incorporated.

The Deed of Indemnity does not cover any taxation claim and the Indemnifiers shall be under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that full provision or reserve has been made for such taxation in the combined audited accounts of our Group for each of the two years ended 31 December 2016 and the four months ended 30 April 2017 (the “**Accounts Date**”), as set out in Appendix I to this prospectus or the unaudited accounts of the relevant member of our Group for the same period and any previous audited accounts of any member of our Group;
- (b) to the extent that such taxation or liability would not have arisen but for some act or omission by any member of our Group voluntarily effected without the prior written consent or agreement of the Indemnifiers (such consent or agreement not to be unreasonably withheld or delayed), otherwise than in the ordinary course of business after the date of the Deed of Indemnity;
- (c) such taxation or liability for which any member of our Group is primarily liable as a result of transactions entered into in the ordinary course of business after the Accounts Date;

- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to 30 April 2017 which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers' liability (if any) in respect of taxation shall be reduced by an amount not exceeding such provision or reserve;
- (e) to the extent that such taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Inland Revenue Department in Hong Kong or any other relevant authority coming into force after the date of the Deed of Indemnity or to the extent that such taxation claim arises or is increased by an increase in rates of taxation after the date of the Deed of Indemnity with retrospective effect; or
- (f) to the extent that such taxation or liability arises as a result of any member of our Group being in breach of any provision of the Deed of Indemnity.

### **15. Litigation**

Save as disclosed in this prospectus, neither our Company nor any of its subsidiaries is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened against our Company or any of its subsidiaries.

### **16. Sole Sponsor**

The Sole Sponsor has made an application for and on behalf of our Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, comprising the Offer Shares and any Shares which may fall to be allotted and issued pursuant to (a) the Capitalisation Issue; and (b) the exercise of options which may be granted under the Share Option Scheme, representing 10% of the Shares in issue on the Listing Date.

The Sole Sponsor has declared its independence pursuant to Rule 6A.07 of the GEM Listing Rules. The Sole Sponsor's fee in connection with the Share Offer is HK\$5.0 million.

### **17. Compliance adviser**

In accordance with the requirements of the GEM Listing Rules, our Company has appointed Lego Corporate Finance Limited as its compliance adviser. The compliance adviser will have access to all relevant records and information relating to our Company that it may reasonably require to properly perform its duties. Pursuant to Rule 6A.23 of the GEM Listing Rules, our Company must consult with and, if necessary, seek advice from the compliance adviser on a timely basis in the circumstances stated therein.

**18. Preliminary expenses**

The preliminary expenses relating to the incorporation of our Company are approximately US\$5,600 (equivalent to approximately HK\$44,000) and are payable by our Company.

**19. Promoters**

Our Company does not have any promoter (as defined in the GEM Listing Rules).

**20. Qualifications and consents of experts**

The qualifications of the experts who have given reports, letter or opinions (as the case may be) in this prospectus are as follows:

<u>Name</u>	<u>Qualification</u>
Lego Corporate Finance Limited	Licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity as defined under the SFO
PricewaterhouseCoopers	Certified public accountants
Shujin Law Firm	PRC legal advisers
Alston & Bird LLP	U.S. legal advisers
Conyers Dill & Pearman	Cayman Islands Attorneys-at-law
Robertsons	Hong Kong legal advisers
Frost & Sullivan International Limited	Industry consultant
Roma Appraisals Limited	Property valuer

Each of the experts named above has given and has not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they respectively appear.

None of the experts named above has any shareholding interest in any members of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of our Group.

**21. Binding Effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penalty provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

**22. Taxation of holders of Shares****(a) Hong Kong****(i) Profits**

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the Shares. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax. Gains from sales of the Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of the Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

**(ii) Stamp duty**

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of the Shares. The duty is charged at the current rate of 0.2% of the consideration or, if higher, the fair value of the Shares being sold or transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares.

**(iii) Estate duty**

Estate duty has been abolished in Hong Kong by The Revenue (Abolition of Estate Duty) Ordinance 2005 which came into effect on 11 February 2006.

**(b) The Cayman Islands**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(c) Consultation with professional advisers**

Intended holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares or exercising any rights attaching to them. It is emphasised that none of our Company, our Directors or the other parties involved in the Share

Offer can accept responsibility for any tax effect on, or liabilities of, holders of the Shares resulting from their subscription for, purchase, holding or disposal of or dealing in the Shares or exercising any rights attaching to them.

### 23. Miscellaneous

- (a) Save as disclosed in this prospectus, within two years preceding the date of this prospectus:
  - (i) no share or loan capital of our Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - (ii) no commissions, discounts, brokerages (other than under the Underwriting Agreements) or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
  - (iii) no commission has been paid or payable subscribing, agreeing to subscribe or procuring subscription or agreeing to procure subscription for any shares in our Company or any of its subsidiaries; and
  - (iv) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (b) Saved as disclosed in this prospectus, no founders, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
- (c) Our Directors confirm that, save for the impact brought by the Listing expenses on our financial results and position for the year ending 31 December 2017, there has been no material adverse change in the financial or trading position or prospect of our Group since 30 April 2017 (being the date to which the latest audited combined financial statements of our Group were made up) up to the date of this prospectus;
- (d) None of the equity and debt securities of our Company is listed or dealt with on any other stock exchange nor is any listing or submission to deal being or proposed to be sought;
- (e) None of our Directors nor any of the persons whose names are listed in “— Qualification and consents of experts” has received any commissions, discounts, agency fees, brokerages or other special terms in connection with the issue or sale of any share or loan capital of any member of our Group;
- (f) There has not been any interruption in the business of our Company which may have or has had a significant effect on the financial position of our Company in the 24 months preceding the date of this prospectus;

- (g) Subject to the provisions of the Companies Law, the principal register of members of our Company will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless the Directors otherwise agree, all transfers and other documents of title of the Shares must be lodged for registration with and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands;
- (h) All necessary arrangements have been made to enable the Shares to be admitted into CCASS;
- (i) There is no arrangement under which future dividends have been waived; and
- (j) No company within our Group is presently listed on any stock exchange or traded on any trading system.

**24. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectus from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of any discrepancies between the English language version and the Chinese language version of this prospectus, the English language version shall prevail.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE** and **YELLOW** Application Forms;
- (b) the written consents referred to in “Statutory and General Information — Other information — 20. Qualifications and consents of experts” in Appendix IV to this prospectus; and
- (c) a copy of each of the material contracts referred to in “Statutory and General Information — Further information about the business of our Group — 7. Summary of material contracts” in Appendix IV to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Robertsons, at 57/F, The Center, 99 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association of our Company;
- (b) the audited combined financial statements of our Group for the two years ended 31 December 2016 and the four months ended 30 April 2017;
- (c) the accountant’s report of our Group from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (d) the report from PricewaterhouseCoopers in respect of the unaudited pro forma financial information of our Group, the text of which is set out in “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus;
- (e) the rules of our Share Option Scheme;
- (f) the letter prepared by Conyers Dill & Pearman, legal adviser to our Company as to Cayman Islands law, summarising certain aspects of Cayman Companies Law referred to in “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix III to this prospectus;
- (g) the Cayman Companies Law;
- (h) the material contracts referred to in “Statutory and General Information — Further information about the business of our Group — 7. Summary of material contracts” in Appendix IV to this prospectus;



- (i) the written consents referred to in the section headed “Statutory and General Information — Other information — 20. Qualifications and consents of experts” in Appendix IV to this prospectus;
- (j) the service contracts and letters of appointment with each of our Directors referred to in the paragraph headed “Statutory and General Information — Further information about Directors, senior management and staff — 9. Directors — (a) Particulars of service contracts and letters of appointment” in Appendix IV to this prospectus;
- (k) the legal opinion issued by the PRC Legal Advisers;
- (l) the legal opinion issued by Robertsons, our Company’s legal advisers as to Hong Kong law;
- (m) the legal memorandum issued by Alston & Bird LLP, our Company’s legal advisers as to U.S. law;
- (n) the industry report prepared by F&S referred to in “Industry Overview”; and
- (o) the fair rent opinion reports issued by Roma Appraisals Limited.

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