

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Offer Shares. The business, financial condition or results of operation of our Group could be materially and adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment.

A number of risks and uncertainties are inherent in our operations. We have categorised these risks and uncertainties into those relating to (i) our business, (ii) the industry, (iii) the PRC, (iv) the Share Offer and (v) this prospectus. Investors should carefully consider the following information in conjunction with the other information contained in this prospectus.

RISKS RELATING TO OUR BUSINESS

Our sales are subject to changes in consumer preferences and other macroeconomic factors that affect consumer spending patterns

Our business is affected by consumer preferences as well as changes in consumers' spending patterns, which are often difficult to predict. We believe that our success to date is largely attributable to our ability to design and develop new household appliances products and improving our existing products. If we fail to design and develop products with acceptable quality, or fall behind our competitors in improving our product quality or product variety, our operating results and financial condition may be adversely affected.

Our growth is strengthened by the expansion of our product offerings which depends on consumers' demand and market preferences in Europe and the United States, for electrothermic household appliances. The level of consumer demand is dependent on the economic environment in these markets, the level of household disposable income and the consumption preferences of our target customers. Household appliances products are consumer products which are affected by consumer preferences and their spending patterns. We need to keep up with changes in consumer preferences and tastes in order to maintain our market share and profitability. Our ability to assess and react to changes in consumer demand, preferences and taste will directly affect our business and operating results.

Our Group relies on a few major customers and our performance will be materially and adversely affected if our Group's relationship with any one of them deteriorates

For FY2016, FY2017, FY2018 and 4M2019, sales to our Group's five largest customers accounted for approximately 70.9%, 67.5%, 59.0% and 71.1%, respectively, of our total revenue, and sales to our Group's largest customer accounted for approximately 23.5%, 20.7%, 15.5% and 33.7%, respectively, of our total revenue during the same periods. Although we have entered into cooperation or long-term agreements with some of our major customers, we could not guarantee that our customers will place us purchase orders on a sufficient amount. Due to our concentration on our major customers, it may also be difficult for us to liaise with such customers for satisfactory prices and commercial terms. Save and except for our long-term agreement with Customer G, we generally do not have minimum purchase commitments from our major customers, and we are not the exclusive supplier for these customers.

RISK FACTORS

If our Group's major customers cease to purchase or reduce substantially their order size in the future, whether due to their decision to change supplier or any other reasons, our Group may not be able to seek alternative customers within a short period of time, the business and financial performance of our Group will be materially adversely affected.

Furthermore, there is no assurance that these customers will not purchase from other suppliers who may offer prices lower than ours, or are believed to offer products of equal or superior quality. Therefore, there is no certainty that we will continue to generate revenue from these customers.

As at the Latest Practicable Date, we had entered into cooperation or long-term agreements with three of our five largest customers for the Track Record Period, namely Customer A, Customer D and Customer G. Such agreements generally provide that a customer can terminate the agreement without cause by giving prior written notice. For details of our cooperation or long-term agreements with customers, please refer to the section headed "Business — Our customers" in this prospectus. In particular, we entered into a long-term agreement with Customer G on 14 December 2018, pursuant to which Customer G agreed to purchase fully automatic coffee machines from our Group with a minimum purchase commitment of 100,000 units by 31 December 2020. Therefore, termination of such agreement, or proximate termination, could materially and adversely affect our business, financial condition, results of operations and prospects.

Our other income and gains relating to the gain on disposal of a piece of land was non-recurring in nature and we may not record such gain in the future

We recorded significant other income and gains in FY2017, which was mainly attributable to the gain on disposal of a piece of land to the local government in Huizhou, the PRC, of approximately HK\$30.0 million. Such disposal was non-recurring in nature and we may not be able to record such gain in the future, which in turn may affect our profitability. For details, please refer to the section headed "Financial information — Period to period comparison of results of operations — FY2017 compared to FY2016" to this prospectus.

Our business and financial position may be adversely affected if we are not able to continue servicing the European market effectively or if there is any adverse change in the macro-economic situation or economic downturn in Europe, e.g. the Brexit

Circumstances in Europe such as economic downturn, natural disaster, and significant changes in consumer spending patterns, which are beyond our control, may affect our business. We have historically been relying heavily on the European market. During the Track Record Period, Europe was our largest sales market. For FY2016, FY2017, FY2018 and 4M2019, revenue arising from sales to Europe amounted to approximately HK\$271.1 million, HK\$261.4 million, HK\$308.4 million and HK\$126.1 million, respectively, representing approximately 75.1%, 72.9%, 82.6% and 87.3% of our total revenue during the corresponding periods, respectively. However, we cannot assure you that we will be able to continue to do so in the future. We believe that our geographical sales contribution is expected to remain significantly towards the European market.

If there are significant changes in the consumer spending patterns and if we are unable to respond effectively to the European market or offer competitive prices to our customers in Europe, our business and financial performance could be adversely affected. Our operating results are heavily dependent on the European macro-economic situations such as changes in global or local economic and political

RISK FACTORS

conditions, general market sentiment, changes in the regulatory environment, fluctuations in interest rates, consumer preferences, spending patterns, and employment levels, may affect the overall performance of the economies of Europe. Consequently, the demand for our household appliances products from Europe may drastically decrease, and if we could not divert our business to other geographical locations, our revenue, profitability, and business prospects will be materially adversely affected.

In addition, our Group may face potential risks and uncertainty associated with the results and outcome of the referendum on the United Kingdom's withdrawal from the EU on 23 June 2016 (“**Brexit**”). Brexit could affect the operational and regulatory regime to which our Group is currently subject in the United Kingdom. It could also impact the United Kingdom's fiscal, monetary and regulatory landscape, its economy and the future growth of its various industries as well as the same in Europe, including those in which our Group and our customers operate. Following the referendum on Brexit, the British pound generally depreciated against U.S. dollars during the Track Record Period. Uncertainty surrounding Brexit could also result in fluctuations or a downturn in aspects of the United Kingdom's economy which may damage customers, and/or investors' confidence and/or reduce consumer spending in the United Kingdom. Any of these events could have an adverse impact on our Group's business, financial condition, results of operations and prospects.

Our results of operations could be adversely affected if we fail to keep pace with customer demands and preferences for product design, research and development and manufacturing of our products

The success of our Group depends on our ability to identify and account for the market demands and customer preferences during our product development and production process. This requires a combination of various elements such as, accurate analysis and prediction of market trends, timely collection of consumer feedback, strong research and development capability and flexible and cost-effective production. If we are unable to predict, identify or react to changing consumer preferences or market trends or if we misjudge the market for our products, the growth and success of our business could be materially and adversely affected, potentially resulting in significant decreases in sales. Specifically, any of the following events, among others, may have a material and adverse effect on our business, financial condition and results of operations:

- failure to remain competitive in our product design, research and development capabilities;
- failure to maintain short cycles for product design, research and development while meeting evolving industry production standards;
- inability to maintain the high-quality of our production;
- failure to maintain our efficient and cost-effective production operation;
- inability to distribute our products in a timely and efficient manner in response to customer demand; or
- failure to recruit or train sufficient research and development employees.

RISK FACTORS

Our business and financial position may be adversely affected if the recent Sino-U.S. trade war persists

For FY2016, FY2017, FY2018 and 4M2019, our revenue arising from sales to the U.S. amounted to approximately HK\$21.6 million, HK\$33.4 million, HK\$28.8 million and HK\$10.0 million, respectively, representing approximately 6.0%, 9.3%, 7.7% and 6.9% of our total revenue during the corresponding year/period, respectively.

It is noted that the U.S. Government is considering imposing tariffs on various products imported from the PRC to the U.S. Some of our customers are located in U.S. while our production plant is located in the PRC. Effective from 1 September 2019, the U.S. Government announced the imposition of additional 15% import tariffs for another batch of Chinese products with an annual trade value of approximately US\$300 billion, which covers coffee machines, electric smoothing irons, baby food makers, food steamers and soup makers. On 13 August 2019, the United States Trade Representative announced that certain products were being removed from the tariffs list while tariffs on some other products would be delayed to 15 December 2019. Such new tariffs may result in potential risk to the business performance of electrothermic household appliance manufacturers in the PRC in a long term.

If the recent Sino-U.S. trade war persists and as a result the global economic environment deteriorates, then the sales of our products could be affected by trade restrictions implemented by the U.S. and the PRC Government, which may in turn have an adverse impact on our business. There is no assurance that our products to be exported to the U.S. would not be subject to the additional tariff. Should we be liable for the additional tariff, the competitiveness of our products in the U.S. market will then be adversely affected. Further, the uncertainty on the trade restriction policies resulting from the Sino-U.S. trade war may cause difficulties for our customers in the U.S. to project their purchasing plans and may cause them to reduce their orders from us, which could materially and adversely affect our financial and business position.

We may not be successful in the development of new initiatives or improvement in the quality of our existing products

During the Track Record Period, we invested and put effort in the design and development of new products. We cannot assure you that our development initiatives could be successfully completed within the budget cost and time frame, or that our new products will launch within anticipated time frame or budget, or that our new products will meet the market preference, achieve a wide market acceptance, or receive a positive market response. Furthermore we cannot guarantee that these new products will be well received by our customers and achieve anticipated sales target or profit margin. In addition, we cannot assure you that our competitors will not develop similar products as our new products. If the products under development cannot be successfully commercialised or fail to attract sufficient customers' demand and market response to generate sufficient revenue to cover the research and development costs and resources invested, our market share, profitability and financial conditions may be adversely affected.

RISK FACTORS

If we are unable to maintain the existing level of utilisation rate at our production facilities, our margins and profitability may be materially and adversely affected

For FY2016, FY2017, FY2018 and 4M2019, our production utilisation rate for coffee machines was approximately 81.9%, 84.3%, 86.4% and 90.3%, respectively, and those for steam generator irons were approximately 93.1%, 72.1%, 93.8% and 54.2%, respectively. For details of the production utilisation rate, please refer to the section headed “Business — Our production and production facilities — Production capacity” in this prospectus. The production utilisation rate may be affected by various other factors, such as skills of our employees, natural disasters and breakdown of our production equipment. There is no assurance that we will be able to maintain a comparable level of output and production utilisation rate in our Huizhou Factory in the future. If we are unable to maintain the existing level of production utilisation rate for any or all of our production facilities, our business, financial condition and operating results may be materially and adversely affected.

We may be exposed to delays and/or defaults of payments by our customers which would adversely affect our cash flows or financial results

Our Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer, rather than the industry or country in which the customers operate, and therefore significant concentrations of credit risk primarily arise when our Group has significant exposure to individual customers.

During the Track Record Period, our Group’s credit term granted to our customers was 30 to 90 days in general. For FY2016, FY2017, FY2018 and 4M2019, the trade receivables of our Group amounted to approximately HK\$61.5 million, HK\$69.0 million, HK\$79.8 million and HK\$64.9 million, respectively, while the trade receivables turnover days were approximately 62.2 days, 70.2 days, 78.0 days and 53.9 days, respectively. Up to 31 August 2019, approximately 100%, 100%, 98.6% and 98.0% of trade receivables as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019 respectively had been settled. Approximately 70.3%, 80.6%, 76.7% and 71.0% of the total trade receivables as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019 were attributable to our Group’s five largest customers of the respective years/period. The financial position, profitability and cash flow of our Group depend on whether customers will be able to settle the outstanding balances owed to our Group in a timely manner. If there is any delay or default in payments made by the customers, the financial position, profitability and cash flow of our Group may be materially and adversely affected.

We are subject to risk of fluctuations in the exchange rate between RMB and USD

During the Track Record Period, approximately 98.3%, 92.9%, 92.9% and 93.2% of our Group’s revenue was denominated in USD, while approximately 95.7%, 87.5%, 90.3% and 82.2% of our costs were denominated in RMB.

Our profit margins will be adversely affected to the extent that we are unable to increase the USD denominated selling prices of our products sold to overseas customers or shift the exchange risk to our customers to account for the appreciation of the RMB against the USD. Any significant fluctuations in the exchange rate between the RMB and USD may result in increases or decreases in our reported costs and earnings, and may also materially affect our business and results of operations. During the Track

RISK FACTORS

Record Period, our Group did not engage in any hedging activity. Any significant fluctuations in the exchange rate between RMB and USD could materially and adversely affect our financial condition and results of operations.

The functional currency of our operating PRC subsidiaries is RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into HKD at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into HKD at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. For FY2016, FY2017, FY2018 and 4M2019, the exchange differences on translation of foreign operations recognised in other comprehensive income/loss amounted to a loss of approximately HK\$13.0 million, a gain of approximately HK\$14.0 million, a loss of approximately HK\$10.3 million and a gain of approximately HK\$0.8 million, respectively.

Fluctuations in the price of materials may have a material adverse effect on the business, results of operations and financial condition of our Group

As the business continues to grow, our Group has experienced an increasing demand for various materials and parts. For FY2016, FY2017, FY2018 and 4M2019, our material costs represented approximately 63.2%, 64.1%, 65.5% and 68.1%, respectively, of the cost of sales of our Group. We may not be able to directly pass on any increase in the price of materials to the customers in short run, which may have a material adverse effect on the business, results of operations and financial condition of our Group.

During the Track Record Period, our Group did not enter into any long-term contracts with our suppliers or commit any minimum quantities to, its third-party suppliers, therefore the fluctuation in prices of materials may have a material effect on the cost of sales of our Group as the prices of parts and components can be volatile given that they are determined by various factors such as the industry demand and supply. Our Group cannot assure that future price increases in materials or changes in the supply of materials will not materially and adversely affect our Group's operating results and performance.

We depend on third party suppliers of raw materials, and we may not be able to secure a stable supply of raw materials with acceptable quality or on acceptable terms

The success of our business depends on our ability to obtain sufficient quantities of quality raw materials, such as electrical parts, plastic raw materials and parts, metal raw materials and parts, power cords and lead wires, and electronic parts, on commercially acceptable terms and in a timely manner.

For FY2016, FY2017, FY2018 and 4M2019, our purchases from our five largest suppliers, in aggregate, amounted to approximately 19.4%, 16.6%, 14.2% and 20.0% of the total purchase, respectively. We have not entered into long-term supply contracts with our suppliers. If any of our suppliers fails to deliver raw materials to us in accordance with our production schedule or if we fail to identify alternative sources of quality raw materials at acceptable prices when needed, or with the required quantity and quality, or at all, the resulting loss of production volume may materially and adversely affect our ability to deliver products to our customers in a timely manner, or at all, and may materially and adversely affect our business, financial condition and results of operations.

RISK FACTORS

An increase in labour costs may adversely affect our Group's business, results of operations, financial condition and growth prospects

According to the F&S Report, electrothermic household appliances manufacturing is considered a labour-intensive business. As at the Latest Practicable Date, our Group had 41 and 821 full-time employees in Hong Kong and the PRC, respectively. We believe our production process sustainability is highly dependent on the ability to maintain cost effectiveness. Our direct labour costs accounted for 19.8%, 19.1%, 18.9% and 19.0% of our Group's total cost of sales for FY2016, FY2017, FY2018 and 4M2019, respectively. Labour costs in the PRC have been rising in recent years and may continue to increase in the future. We cannot give assurance that the labour cost will continue to be stable. If our Group fails to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to accommodate sudden increase in demand for our products. If our Group is not able to manufacture and deliver its products on schedule or if we are unable to implement the expansion plans, our business, results of operations, financial condition and growth prospects would be materially adversely affected. Furthermore, if there is a significant increase in labour cost, the cost of our Group's business operation would increase, and its profitability would be adversely affected.

We may not be able to manage our inventory risks effectively

We operate in an industry which requires us to manage a large volume of inventory effectively. We may not be able to resell those products if our customers cancel orders with us. In addition, we depend on our demand forecasts for the raw materials to make purchase decisions and to manage our inventories. Demand for products, however, can change significantly between the time when inventory is ordered and the date by which we hope to sell it, and as such our customers may not order products in the quantities that we expect. As at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, our inventory amounted to approximately HK\$31.0 million, HK\$46.2 million, HK\$43.1 million and HK\$64.6 million, accounted for approximately 12.0%, 14.1%, 21.2% and 27.2% of our total current assets, respectively. As we plan to expand our production to meet customers' demands, we may not be able to manage our inventory effectively. 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. In addition, we may be required to lower sale prices in order to reduce inventory level, which may lead to lower gross margins. 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. If we fail to resell products from cancelled orders, our financial condition and results of operations may be materially and adversely affected.

Discrepancy in contributions to various employee benefit plans and insurances as required by the PRC regulations may subject us to penalties

Pursuant to the applicable PRC laws and regulations, we are required to participate in various social security insurances, including pension contributing plans, medical insurance, work-related injury insurance, maternity insurance and unemployment insurance, and housing provident fund for our employees in the PRC, and contribute to these plans and funds at the level specified by the relevant local government authorities from time to time at locations where we operate. During the Track Record Period, we made contribution based on the mutually agreed designated wage of the employees, which were higher than the minimum base amount required by the local government authorities for the purpose

RISK FACTORS

of calculating the employee benefit contribution, but lower than their respective actual wage, and such method has resulted in a discrepancy between the amount of contribution we made and the amount as required by the relevant PRC regulations.

We had outstanding provisions for the discrepancy as payroll and employee benefit payables of approximately HK\$4.6 million, HK\$5.2 million, HK\$0.5 million and HK\$0.6 million as at 31 December 2016, 31 December 2017, 31 December 2018 and 30 April 2019, respectively while relevant provision of approximately HK\$3.9 million were retained in Tunbow (Huizhou) as at 31 December 2018, and therefore forms part of the assets and liabilities deemed distributed to Tunbow Investments (BVI) (which is controlled by our Controlling Shareholders) on 31 December 2018. As of the Latest Practicable Date, we had not received any notice from the local authorities or any claim from our current and former employees regarding the discrepancy in our payment. However, we cannot assure you that the relevant local government authorities will not require us to pay the discrepancy within a prescribed time or impose late fees or fines on us, which may adversely affect our business, financial condition and results of operations.

Any failure to maintain an effective quality control system at our production facilities could have a material adverse effect on our business and operations

The quality of our products is dependent on the effectiveness of our quality control system, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any failure in our quality control system may result in production of defective or substandard products, which in turn may impair our reputation, result in delays in the delivery of our products and the need to replace defective or substandard products, which could have a material and adverse impact on our business, financial conditions and results of operations.

We rely on third-party logistics service providers and courier companies to deliver our products

Since we do not have our own transportation team, we engaged independent logistics service providers for the transport or delivery of our products to locations designated by our customers. Should the logistics service providers fail to comply with the transportation arrangements or any regulatory requirements, they may fail to transport or deliver our products to our customers in a timely manner or at all. Upon any failure by any of our existing logistics service providers to discharge their delivery obligations, we may not be able to find other suitable companies or agents as replacements on a timely basis, and our business, financial performance and operations may therefore be adversely and materially affected.

We rely on our key management personnel

Our future success is highly dependent on the ongoing efforts of our management and key personnel. We rely on such management and key personnel for their capabilities in developing new and maintaining existing customer relationships and developing new products and their extensive knowledge of and experience in the electrothermic household appliances manufacturing industry. We may not be able to retain the services of our management or key personnel or attract and retain management or key personnel in the future. We may also be unable to attract or retain the specialised personnel required to achieve our business objectives, and failure to do so could adversely affect our business and prospects. In addition, we depend on the continued service of skilled managerial and technical personnel. In the

RISK FACTORS

event that any member of our management or any of our key personnel joins a competitor or forms a competing company, we may not be able to replace them easily and we may lose our technical know-how, product development capability, customers, business partners and other key staff members.

We require various licences, certificates and permits to operate our business, and the failure to obtain or renew any or all of these licences, certificates and permits could adversely affect our business, financial condition and results of operations.

We are required to maintain various licences, certificates and permits in order to operate our manufacturing facilities. We are required to comply with applicable standards in relation to our production processes. Our facilities are subject to regular inspections by the regulatory authorities for compliance with the relevant laws and regulations in the jurisdictions where we operate. As at the Latest Practicable Date, we had the pollutant discharge license of Guangdong Province, PRC for disposing waste with a term from 20 April 2019 to 18 October 2019. As mentioned in the section headed “Regulatory overview — The PRC — Laws and regulations on environmental protection and hazardous substances — Pollutant discharge license and environmental protection tax” in this prospectus, such license will not be issued anymore since 13 August 2019. The enterprises whose production processes involve industrial furnaces shall apply for national pollutant discharge license by the year of 2020. Failure to pass these inspections, or otherwise obtain or renew our licences, certificates and permits, could lead to temporary or permanent suspension of some or all of our production activities which would adversely affect our business, financial condition and results of operations.

We may not be able to respond in an efficient and timely manner to product safety standards and certification requirements

Some of our products must satisfy pre-requisite safety standards and/or requirements in accordance to certain certifications before they can be imported to or sold in the domestic markets. The safety standards and certification requirements are subject to changes by government and relevant certification authorising bodies from time to time, and more stringent requirements may be imposed to enhance product safety. As such, it is important that we keep updated of such possible changes and adjust our technical capability in advance. If we fail to accommodate to such changes efficiently, we may not be able to secure our businesses under the new requirements and we will lose our existing customers, and this in turn will adversely affect our operations and financial results.

We may be exposed to claims in respect of product quality and safety standards made by the end-consumers of our products

Our Group is exposed to risk of product liability claims if the use of our products results in health or safety issues or damages. The end-consumers of our products may be entitled to commence an action under tort against our Group and we may also be subject to tortious liabilities for any damages caused by defects of our products. There is no assurance that we would not be named as a defendant in a lawsuit or proceedings brought by end-consumers in respect of our products in the future. A successful claim against us in respect of our products or a recall of our products may result in (i) legal costs incurred in connection with such claim or other adverse allegations or rectifying such defects; (ii) deterioration of our brand and image; and (iii) material adverse effect on our sales, operating results and financial condition.

RISK FACTORS

Disruptions, damage or destruction to our production facilities, equipment and machinery or other leased properties may materially and adversely affect our business, financial condition and results of operations

The success of our Group relies on product quality and safety, which is depended on our quality control system decided by a number of factors, including the design of the system, the quality control training programme, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any failure of our quality control system could result in the production of substandard products, which in turn may impair our reputation, result in delays in the delivery of our products and the need to recall substandard products, which could have a material and adverse impact on our business, financial condition and operating results. Additionally, efficient and consistent daily operations of our production facilities are highly crucial to our business. Regular repair and maintenance programmes for our production facilities are scheduled by our production departments to ensure that our production facilities are in good conditions. Although we have implemented regular repair and maintenance programmes, there is no assurance that we are able to discover all the faults and defects whenever they exist or occur in order to execute repair works or take appropriate measures before any harm is caused to our plant, staff or production. Furthermore, we cannot assure you that there will be no sudden malfunctions or stops in our production facilities during our daily operations due to any natural disasters, power shortage or malicious human acts and if any breakdown or malfunctions of machinery happens, our business, financial condition and operating results could be adversely impacted.

Our production enhancement may not be successful

We plan to utilise certain portion of the net proceeds from the Share Offer on upgrading our production facilities and enhancing our production capacity. The overall utilisation rate of the production facilities in our Huizhou Factory was approaching full utilisation for FY2018. It is our strategic plan to upgrade our production facilities and enhance our production capacity in order to meet the increasing demand for our products and to capture future growth opportunities in the electrothermic household appliances manufacturing industry. Further details on our production enhancement are set forth in the section headed “Business — Business strategies and future plans — Upgrading our production facilities and enhancing our production capacity” in this prospectus.

The success of our production enhancement hinges on our ability to capture additional demand from our customers. However, there is no assurance that we will be able to maintain or establish relationships with our existing or prospective customers or secure new purchase orders from them to utilise our increased production capacity. We may have problems of under-utilisation of our new production facilities if demand for our products does not increase at the same rate. In the event that the above events happen or we are unable to achieve the desired utilisation of our production capacity as planned, there could be a material adverse effect on our performance and results of operation.

Furthermore, the future capital expenditure of our Group for the purchase of machinery and equipment may result in an increase in our depreciation expenses and may therefore adversely affect our Group’s future results of operations and financial expense performance. Our ability to increase revenue, profit and cash flow therefore depends on our continued ability to expand our production capacity.

RISK FACTORS

We cannot guarantee that the production enhancement will be successfully implemented. There may be uncertainties and risks, such as cost overrun, delays, shortage of labour and shortage of key materials, which are beyond our control and would increase the implementation costs. Any failure to implement our production enhancement may make it difficult to further develop our business operations, take advantage of market opportunities or effectively compete with our competitors. If our capacity expansion does not proceed as we desire, is not timely completed or does not result in the anticipated benefits, our future plans, profitability and growth may be materially and adversely affected.

Foreign governments may institute various trade protection measures and impose high tariffs on imported goods

During the Track Record Period, we had over 100 customers contributed revenue to us. Our major customers are mainly reputable and internationally recognised brand companies headquartered in Europe (e.g. Germany, France, the United Kingdom, and the Netherlands), to which we export our products may impose countervailing duties on imports to offset the competitive advantages the exporting producers may have from subsidies provided by their domestic governments. As such, any trade protection measures unfavourable to our export products imposed by foreign governments including tariffs on imported goods will increase our cost of sales.

We cannot assure you that the countries to which we export our products directly or indirectly will not initiate trade protection measures including anti-dumping duties and countervailing duties, which may impact our products in the future. If any of the above occurs, our profit margins will be adversely affected and we cannot assure you that we will be able to pass on this extra cost to our customers. Our overseas customers may instead choose to purchase from our competitors that can offer cheaper prices. In either of the aforementioned situations, we may lose export sales turnover and market share, which could materially and adversely affect our business, financial conditions and results of operations.

We may not have insurance coverage that is adequate to cover potential liabilities or losses

Our Group may face liabilities that exceed its available insurance coverage or arise from claims outside the scope of its insurance coverage. Furthermore, we are not able to provide assurance that our Group will not receive any complaints or claims against it or be subject to product recalls. Our Group may have to spend significant resources and time to defend itself if legal proceedings for product liability are instituted against our Group. The successful assertion of product liability claims against our Group could require our Group to pay significant monetary damages and/or subject our Group to recall of its products. If any such claims are made, our Group's reputation may also be adversely affected, which may lead to loss of market share, and the business, results of operations, financial condition and prospects of our Group could be materially and adversely affected. Further information on our Group's insurance coverage is set forth in the section headed "Business — Insurance" in this prospectus.

We may fail to adequately protect our intellectual property rights

Our principal intellectual property rights cover our proprietary technology, product designs and our patents and trademarks. We are susceptible to infringement by third parties of our intellectual property rights and there is no assurance that third parties will not copy or otherwise obtain and use our intellectual property rights without authorisation. We have obtained patents for some of our proprietary technology and registered several of our designs and trademarks. However, it is not possible for us to comply with, and seek every clearance under, the relevant laws of all possible jurisdictions for the

RISK FACTORS

protection and enforceability of our intellectual property rights and there is no assurance that such registrations can completely protect us against any infringements or challenges by our competitors or other third parties. When necessary, we may have to expend a significant amount of financial resources to assert, safeguard and/or maintain our intellectual property rights. If our intellectual property rights cannot be enforced against an infringement by our competitors or other third parties, our business, financial condition and operating results could be adversely affected.

On the other hand, we may be susceptible to third parties claims that we are infringing their intellectual property rights, and if there is a successful claim of intellectual property rights infringement against us, we might be required to pay substantial damages to the party claiming infringement, refrain from further sale of our products, develop non-infringing technology or enter into costly licencing agreements on an on-going basis. However, we may not be able to obtain licencing agreements on terms acceptable to us or at all. Any intellectual property litigation or successful claim could have a material adverse effect on our business, operating results or financial condition.

We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the EU, the United Nations, Australia and other relevant sanctions authorities.

The United States and other jurisdictions or organisations, including the EU, the United Nations and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries.

During the Track Record Period, we had sales and deliveries of our electrothermic household appliances to customers located in Russia and the Balkans. Russia, in particular, has been subject to a variety of additional sanctions measures since its actions in Crimea were deemed to be illegal by the Governments of many Western governments and governmental organisations, including additional sanctions measures adopted by the United States in 2018 and 2019. Further, the region of Crimea, which is located in between Russia and Ukraine, is subject to comprehensive international sanctions, and while we have not conducted any business transactions in Crimea during the Track Record Period, we do business in Russia, which claims sovereignty over Crimea. The revenue generated from our business activities relating to Russia and the Balkans was approximately HK\$10.4 million, HK\$2.5 million, HK\$2.9 million and HK\$0.6 million, representing approximately 2.9%, 0.7%, 0.8% and 0.4% of our total revenue for FY2016, FY2017, FY2018 and 4M2019, respectively. Russia and the Balkans were subject to targeted sanctions during the Track Record Period.

While we have implemented internal control measures to minimise our risk exposure to International Sanctions, sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions. Our business and reputation could be adversely affected if the authorities of United States, the EU, the United Nations, Australia or any other jurisdictions were to determine that any of our future activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Group.

RISK FACTORS

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

Our Group may be subject to liability in connection with industrial accidents at its production facilities

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. We are not able to provide assurance to you that industrial accidents at our Group's production facilities, whether due to malfunctions of tools, equipment or machinery or other reasons, will not occur in the future. As such, 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 its business, results of operations and financial condition.

We are subject to a variety of environmental, health and safety laws and regulations

We are subject to the PRC laws and regulations relating to the discharge of pollutants as a result of our production processes. Compliance with existing and future environmental, health and safety laws could subject us to costs or liabilities, including fines, impact on our production capabilities, result in suspension of our business operations, expand or acquire facilities and generally impact our financial performance. If we are held liable for damages in the event of any violation of applicable environmental, health and safety laws, our reputation, licences and certifications to manufacture may be revoked, and our financial condition and results of operations could be materially and adversely affected.

We face fierce market competition in the electrothermic household appliances manufacturing industry and failure to compete efficiently could materially and adversely affect our business

We operate in a highly fragmented industry with a large number of manufactures that provide products like ours. Some of these companies may be able to use profits from their other operations to subsidise losses in their businesses with which we compete or sell the similar products with lower price. These advantages over us may enable them to, among other things; (i) develop products which are similar or more attractive than ours; (ii) achieve production cost reductions and produce similar products that are less expensive than ours which will enable them to increase their market share; and/or (iii) market, promote and sell their products more effectively and develop stronger relationships with customers. The abovementioned factors could significantly harm our ability to sell and market. If we fail to maintain or improve our market position or fail to respond accordingly to changes in the competitive landscape, our business, profit margins, financial condition and operating results may be materially and adversely affected.

RISK FACTORS

RISKS RELATING TO THE PRC

Our Group's business could be materially and adversely affected by changes in economic, political and social conditions in the PRC, as well as by changes in policies adopted by the PRC Government

We conduct all our production in the PRC, as such the financial condition and results of operations of our business are subject to political, economic and legal developments in the PRC to a significant extent. The PRC's economy differs from the economies of other developed countries in many aspects, including government involvement, growth rate, control of foreign exchange, allocation of resources and capital investment. We cannot assure you that there will not be any unfavourable changes in the PRC's political, economic and governmental policies and measures that could impact the industries in which we operate, which could in turn diminish the demand for our products.

Uncertainties with respect to the Chinese legal system could have an adverse effect on our business

The PRC legal system is based on statutes whereas court decisions have limited precedential value. Since the late 1970s, the PRC Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has significantly enhanced the protections afforded to various forms of foreign investments in China, however as the PRC legal system continues to evolve, the interpretations of many statutes, regulations and rules are not always uniform and enforcement such laws involves uncertainties. Further, some regulatory requirements issued by certain PRC Government authorities may not be consistently applied. Since the PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties create difficulties in our ability to enforce the contracts we have entered into with our business partners and customers. Such uncertainties could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the more developed countries. 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 preemption 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 China may be protracted and result in substantial costs and diversion of our resources and management attention.

RISKS RELATING TO SHARE OFFER

There has not been any prior public market for our Shares and an active trading market may not develop

An active trading market for our Shares may not develop and the trading price of our Shares may fluctuate significantly. Prior to the Share Offer, there has been no public market for our Shares. The Offer Price was the result of negotiation between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), and the Offer Price may not be indicative of the price at which our Shares will be traded following completion of the Share Offer. In addition, we cannot assure

RISK FACTORS

you that an active trading market for our Shares will develop, or, if it does develop, that it will be sustained following completion of the Share Offer, or that the trading price of our Shares will not fall below the Offer Price.

Shareholders' interest in our Company's share capital may be diluted in the future

We may need to raise additional funds in the future to finance further expansion of our business. If additional funds are raised through the issuance of new equity or equity-linked securities of our Group other than on a pro rata basis to existing Shareholders, the percentage of ownership of such Shareholders in our Company may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by our Shares.

In addition, we may issue additional Shares upon exercise of the options to be granted under the Share Option Scheme in the future. The increase in the number of Shares outstanding after the issue would result in the reduction in the percentage ownership of the Shareholders and may result in a dilution in the earnings per Share and net asset value per Share.

The trading volume and price of our Shares may fluctuate. Further, any disposal of a substantial number of Shares by our Controlling Shareholders in the public market may adversely affect market price of our Shares

The trading volume and price of our Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flow, announcements of business development, strategic alliances or acquisitions, new projects, industrial or environmental accidents suffered by us, loss of key personnel, changes in ratings by financial analysts and credit rating agencies or litigation may cause large and sudden changes in the volume and price at which our Shares will trade. In addition, the Stock Exchange and other securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of our Shares.

Further, we cannot assure you that our Controlling Shareholders will not dispose of, in part or in whole of, their Shares following the expiration of their respective lock-up periods after the Listing. We cannot predict the effect, if any, of any future sale of our Shares by any of our Controlling Shareholders on the market price of our Shares. Sale of our Shares by any of our Controlling Shareholders may materially and adversely affect the prevailing market price of our Shares.

Granting options under the Share Option Scheme may affect our Group's result of operation and dilute Shareholders' percentage of ownership

Our Company may grant share options under the Share Option Scheme in the future. The fair value of the options on the date on which they are granted with reference to the valuer's valuation will be charged as share-based compensation, which may adversely affect our Group's results of operation. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance and thus may result in the dilution to the percentage of ownership of our Shareholders and the net asset value per Share. No option has been granted pursuant to the Share Option Scheme as at the Latest Practicable Date. For a summary of the terms of the Share Option Scheme, please refer to the paragraph headed "D. Share Option Scheme" in Appendix IV to this prospectus.

RISK FACTORS

We cannot assure you that we will declare or distribute any dividend in the future

Any decision to declare and pay any dividends would require the recommendations of our Board and approval of our Shareholders. Any decision to pay dividends will be made having regard to factors such as the results of operation, financial condition and position, and other factors deemed relevant. Any distributable profits that are not distributed in any given year may be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operation. We cannot assure you that we will be able to declare or distribute any dividend. Our future declarations of dividends will be at the absolute discretion of our Board.

RISKS RELATING TO STATEMENTS IN THIS PROSPECTUS

Certain facts, statistics and data contained in this prospectus have not been independently verified and may not be reliable

Certain facts, statistics and data in this prospectus are derived from various sources including various official government sources that we believe to be reliable and appropriate for such information. However, we cannot guarantee the quality or reliability of such source materials. We believe that the sources of the said information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted rendering such information false or misleading. Nevertheless, such information has not been independently verified by us, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective directors, affiliates or advisers (which, for the purpose of this paragraph, excludes Frost & Sullivan) and therefore, none of them makes any representation as to the accuracy or completeness of such facts, statistics and data. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such information or statistics.

Investors should read the entire prospectus and we strongly caution you not to place any reliance on any information contained in press articles, other media and/or research reports

There may be press and media coverage regarding our Group or the Share Offer, which may include certain events, financial information, financial projections and other information about our Group that do not appear in this prospectus. We have not authorised the disclosure of any other information not contained in this prospectus. We do not accept any responsibility for any such press or media coverage and make no representation as to the accuracy or completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, our Group disclaims responsibility for them. Accordingly, investors should not rely on any such information. In making your decision as to whether to subscribe for and/or purchase our Shares, you should rely only on the financial, operational and other information included in this prospectus.

RISK FACTORS

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 terminologies such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “may”, “ought to”, “should” or “will” or similar terms. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Investors of our Shares are cautioned that reliance on any forward-looking statements 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. The uncertainties in this regard include, but are not limited to, those identified in this section, many of which are beyond our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us that our plans or objectives will be achieved and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise.