BUSINESS STRATEGIES AND FUTURE PLANS

Our principal business objective is to strengthen our position in electrothermic household appliances manufacturing market. For details of our business strategies and future plans, please refer to the section headed "Business — Business strategies and future plans" in this prospectus.

USE OF PROCEEDS

Assuming an Offer Price of HK$1.40, being the mid-point of the indicative Offer Price range, and after deducting related underwriting fees and estimated expenses in connection with the Share Offer and the Over-allotment Option is not exercised, our Group estimates that the aggregate net proceeds to our Company from the Share Offer will be approximately HK$99.5 million. Our Directors presently intend to apply such net proceeds as follows:

- approximately HK$50.4 million (or approximately 50.7% of the proceeds) will be used for upgrading our production facilities and enhancing our production capacity, in particular (i) approximately HK$32.5 million will be earmarked for acquiring additional units of machinery for new production facilities and upgrading existing production facilities in our Huizhou Factory; (ii) approximately HK$9.3 million will be earmarked for increasing the level of automation in our production process by acquiring more automated robots to assist us in the manufacturing of plastic casings and parts, metal casings and parts, electronic components and quality control; (iii) approximately HK$6.7 million will be earmarked for upgrading our existing factory building facilities; and (iv) approximately HK$1.9 million will be earmarked for acquiring additional power transformer for our production facilities in view of the increase in production scale in our Huizhou Factory.

- approximately HK$31.6 million (or approximately 31.8% of the proceeds) will be used for strengthening our product design and development capabilities and increasing our product offerings, in particular (i) approximately HK$29.9 million for expanding and enhancing our product range by developing new ODM models; (ii) approximately HK$1.5 million for recruiting additional engineers and designers; and (iii) approximately HK$0.2 million for strengthening our product design and development capabilities by purchasing and implementing additional equipment and software.

- approximately HK$8.6 million (or approximately 8.6% of the proceeds) will be used for strengthening our customer base, in particular (i) approximately HK$7.1 million will be earmarked for attending the exhibitions held in Europe, Hong Kong and Latin America, conducting site visits to both existing and potential overseas customers to enhance our market presence in the international market and to expand the geographic coverage of our products and our customers base, and subscribing for market data to enhance our sales activities; (ii) approximately HK$1.2 million will be earmarked for recruiting sales executives who will be responsible for identifying the potential customers; and (iii) approximately HK$0.3 million will be earmarked for providing product samples to existing and potential customers for marketing purpose.

- approximately HK$5.7 million (or approximately 5.7% of the proceeds) will be used for upgrading our information technology systems, in particular (i) approximately HK$4.4 million will be earmarked for purchasing a new version of ERP system to cover wider aspects in our daily operations and enhance electronic data interchange and data direct linkage; (ii) approximately HK$1.3 million will be earmarked for provision of staff training on the usage and system infrastructure, as well as provision of system maintenance and system development after the system upgrade.

- approximately HK$3.2 million (or approximately 3.2% of the proceeds) will be used for general working capital purpose.

If the Offer Price is set at the high-end or low-end of the indicative Offer Price range, being HK$1.50 and HK$1.30 per Offer Share, respectively (assuming the Over-allotment Option is not exercised), the net proceeds from the Share Offer will correspondingly increase to approximately HK$108.5 million or decrease to approximately HK$90.5 million, respectively. Our Directors intend to adjust the above allocation of the net proceeds on a pro-rata basis if the Offer Price is set above HK$1.40 per Offer Share, being the mid-point of the indicative Offer Price range. If the Offer Price is set below HK$1.40 per Offer Share, our Directors intend to adjust the above allocation of the net proceeds by first reducing the amount to be used for general working capital purpose; then, if the adjustment is more than approximately HK$3.2 million (the amount allocated for the general working capital purpose based on the mid-point of the indicative Offer Price range), reducing the amount to be used for strengthening our customer base purpose accordingly.

If the Over-allotment Option is exercised, the net proceeds from the Share Offer will increase by approximately HK$18.9 million (assuming an Offer Price of HK$1.40 being the mid-point of the indicative Offer Price range). Our Directors intend to adjust the above allocation of the net proceeds on a pro-rata basis.

Should there be any material change in the intended use of the net proceeds from the Share Offer as described above, our Group will make appropriate announcement(s) in due course.

To the extent that the net proceeds from the Share Offer are not immediately applied for the above purposes, our Directors intend that such net proceeds will be placed on short-term deposits with financial institutions in Hong Kong.

REASONS FOR THE LISTING

(i) Funding our expansion plan

Our Directors consider that our expansion plan as detailed in the section headed "Future plans and use of proceeds — Use of proceeds" in this prospectus is capital intensive. We currently expect that the total capital expenditure of our expansion plan to be incurred up to the year ending 31 December 2021 would be approximately HK$61.1 million, of which approximately HK$50.4 million will be financed by net proceeds from the Share Offer and remainder of approximately HK$10.7 million, primarily for the upgrade of other existing machinery, will be financed by internal resources. While our business generated net operating cash inflow, it is insufficient for the immediate implementation of our business strategies and would place undue financial burden on our Group in terms of cashflow if we are to use all our cash on hand for business growth purposes. Our Directors believe our Group may have insufficient internally generated funds to finance our expansion plan while at the same time maintaining sufficient working capital for our Group's operations.

As at 30 April 2019, we had (a) unutilised banking facilities of approximately HK$0.6 million, primarily comprising import and export facilities with specific purposes; and (b) cash balance of approximately HK$67.7 million.

As disclosed in the section headed "Future plans and use of proceeds — Use of proceeds" in this prospectus, the implementation of our production enhancement requires a substantial amount of cash as we are to acquire new machinery and equipment. Such expansion plan as detailed in the section headed "Future plans and use of proceeds — Use of proceeds" in this prospectus will equip our Group with sufficient resources to maintain our competitiveness in the electrothermic household appliances manufacturing industry to cater for our business growth opportunities in the next three years.

Based on our expansion plan, we are expected to utilise its net proceeds from the Share Offer of approximately HK$8.9 million, HK$66.1 million and HK$21.3 million, respectively, in aggregate for each of the three years ending 31 December 2021 for our expansion plan. Without the proceeds from the Share Offer, we will be unable to fund our expansion plan solely on the unutilised banking facilities and cash balance of approximately HK$0.6 million and HK$67.7 million as at 30 April 2019, respectively.

Therefore, we consider that our expansion plan is not feasible to be financed with further debt financing and that equity financing can provide additional funding on top of our available financial resources as at the Latest Practicable Date and is essential to our expansion plan and future development, taking into account the following factors:

(a) Having considered our Group's average gearing ratio at approximately 43.4% during the Track Record Period, our Directors consider that further undue reliance on debt financing to finance our Group's capital and cash flow requirements would not be commercially feasible as it would place considerable financial burden on our Group as well as our Controlling Shareholders, which would in turn curtail our long-term sustainability and room for business development.

As at 30 April 2019, we have unutilised banking facilities of approximately HK$0.6 million, primarily comprising import and export facilities which can only be drawn under conditions specified in the relevant facility letters, for instance, import/export transactions with customers and suppliers, and cannot be utilised by us for other purposes. Furthermore, our current banking facilities contain certain clauses, for instance, the repayment on demand clause, by which the banks have the rights to call back our bank loans at any time should they consider individual circumstances or market condition unfavourable. We are subject to the risk that we will fail to renew or obtain bank borrowings, which our business operation and expansion plans will be materially and adversely affected.

We have approached our certain banks which we or our Controlling Shareholders have business relationship with. As at the Latest Practicable Date, these banks indicated that it would be unlikely for our Group to obtain any new or incremental facility without additional collaterals. Given that the our Group do not have available assets which can be pledged to bank, and further debt financing will only be available when our Group can provide other collateral as security, our Directors are of the view that further debt financing is not feasible for our Group's long-term business expansion. Therefore, equity financing is the only available option to obtain capital for our business expansion;

(b) if we raise additional funds by incurring debt financing, we may be subject to various covenants under the relevant debt instruments that may, among other things, restrict our ability to obtain additional financing. If we fail to service such debt obligations or are unable to comply with any of these covenants, we could be in default under such debt obligations and our liquidity and financial condition could be materially and adversely affected;

(c) our Directors consider that our Company, without a listing status, would be difficult to obtain debt financing without guarantees or other collateral to be provided by our Controlling Shareholders. It is anticipated that additional bank borrowings to our Group would require our Controlling Shareholders to provide additional guarantees and/or fixed assets as collateral if our Company were not listed. This is supported by the fact that the lending bank was willing to release the guarantees provided by our Controlling Shareholders, subject to, among other things, our Company being successfully listed on the Stock Exchange. Furthermore, the continuous reliance on our Controlling Shareholders for provision of personal guarantee and other form of financial assistance is a hindrance to our Group's future development and to our Group in achieving financial independence;

(d) after consultation with the machine vendors and banks in the PRC, our Directors are of the view that leasing of similar machinery is unavailable in the market. Further, our Directors do not consider sub-contracting is an alternative given the stringent requirement over production process in order to ensure various product quality and safety standards that our customers are subject to can be complied with;

(e) the regular financial reporting requirement under the Listing Rules can enable the bank to evaluate and monitor our Group's financial position more effectively and therefore is expected to smoothen the approval process for any future additional bank borrowings. The better accessibility to banking facilities allow us more flexibility in management of the cash flow of our business that can be affected by factors including those set out in the section headed "Risk factors" in this prospectus; and

(f) our Directors consider that our customers and suppliers will give preference to company who has little debt burden, and hence at a lower risk of defaulting and becoming financially vulnerable.

Therefore, our Directors believe that there is a genuine funding need to support our production enhancement through the Listing.

In view of the long-term objective of our Group to pursue such business growth, our Directors consider that it is in the best interest of our Group to seek further investments from a broad shareholders' base instead of from our Controlling Shareholders. Accordingly, our Directors consider the Listing provides an avenue to our Group to raise capital through equity infusion to fund our continuous growth, and enable us to grow faster than we could if we were to remain private by relying solely on our limited internal resources.

(ii) Strengthen our competitiveness in the market through the Listing

It is expected that the brand recognition of our Group can be broadened through the Listing and our corporate profile will be enhanced, which in turn will help attract more customers. We believe that our potential customers tend to give preference to a manufacturer which has a public listing status with a sound reputation. Furthermore, the listing status will also enhance our Group's credibility, which would increase our Group's bargaining power in negotiating terms and earn us more favourable terms from our suppliers.

(iii) Meaningful incentive scheme to retain talents

In addition, a public listing status may also enable us to attract and retain talents. We have, as part of the Listing, adopted the Share Option Scheme to incentivise our employees. As our business requires the support of experienced engineers and skilled personnel who have experience in the electrothermic household appliances manufacturing industry, the Listing enables us to adopt a meaningful stock options programme for our employees to be fairly compensated in line with their contributions and performance. This is because when our Shares are publicly traded, the share price hinges on our performance, which is indirectly attributable to the employees' efforts. Employees who exercise their share options are then able to trade our Shares freely in an open market.

(iv) Broader shareholder base to enhance long-term continuity and business succession

A public listing status on the Stock Exchange helps to unlock the real hidden value of our Group through market-driven mechanism as compared to when we were a private company where there was no market available for trading of shares of an unlisted company, the fair market value of our Group is difficult to arrive at. A public listing status may also offer our Company a broader shareholder base which can potentially lead to a more liquid market in the trading of our Shares. In view of our long and reputable history, our executive Directors and Controlling Shareholders believe that the Listing is a natural progression of our corporate history and the broader shareholder base will enhance the long-term continuity of our Group and business succession. Furthermore, capital market provides a well-organised risk distribution system for risk transfer from one person to another through well-organised market forces.

(v) Other commercial benefits arising from a public listing status

We believe that through the Listing, our internal control and corporate governance practises would be further enhanced. The Share Offer will strengthen the liquidity of the Shares by achieving the listing status of the Shares which will be freely traded on the Stock Exchange when compared to the limited liquidity of the Shares that are privately held before the Listing.