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As at 30 April 2021, we offered more than 1,800 types of household necessity products with different functions and features. The table below sets forth the breakdown of our revenue by product category for the years and periods indicated:

| | For the year ended 31 December | | | | | | For the four months ended 30 April | | | |
|--------------------------|--------------------------------|----------------|-------------------|----------------|-------------------|----------------|------------------------------------|----------------|-------------------|----------------|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | <i>% of total</i> | | <i>% of total</i> | <i>Revenue</i> | <i>% of total</i> | | <i>% of total</i> | | <i>% of total</i> | |
| | <i>RMB'000</i> | <i>revenue</i> | <i>RMB'000</i> | <i>revenue</i> | <i>RMB'000</i> | <i>revenue</i> | <i>RMB'000</i> | <i>revenue</i> | <i>RMB'000</i> | <i>revenue</i> |
| | (unaudited) | | | | | | | | | |
| Laundry products | 159,029 | 48.4 | 165,008 | 49.1 | 176,963 | 46.0 | 69,075 | 61.2 | 78,471 | 62.2 |
| Household cleaning tools | 164,386 | 50.0 | 166,712 | 49.5 | 192,025 | 49.9 | 41,018 | 36.3 | 46,452 | 36.8 |
| Kitchen gadgets | 5,333 | 1.6 | 4,833 | 1.4 | 15,752 | 4.1 | 2,749 | 2.5 | 1,317 | 1.0 |
| Total | 328,748 | 100 | 336,553 | 100 | 384,740 | 100 | 112,842 | 100 | 126,240 | 100 |

We manufacture our products at our self-owned Huzhou Production Plant, which has a gross floor area of approximately 58,441 sq.m. and is equipped with production machinery and equipment such as plastic injection machines, powder coating lines, brush filling machines, washing line extruding lines and a variety of ancillary equipment. Being an OEM or ODM supplier of household necessity products for various well-established international brands, we are committed to the quality and safety of our products and have adopted a comprehensive quality control system to closely monitor the production process of our products in order to meet the stringent requirements and standard of our customers on product quality. Our major operating subsidiary, namely, BHP Zhejiang, has been accredited with ISO9001 Quality Management System since 2015. We are also accredited with, ISO14001 Environmental Management System, OHSAS18001/ISO45001 Occupational Health and Safety and BSCI ethical audit since 2015.

The major raw materials used in the production of our products are polypropylene resin and steel. All our five largest suppliers during the Track Record Period were located in the PRC. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, the amount of purchases from our five largest suppliers amounted to approximately RMB63.0 million, RMB61.6 million, RMB61.2 million and RMB26.4 million, respectively, representing approximately 35.1%, 32.5%, 29.3% and 33.2%, respectively of our total purchases during the corresponding years.

Despite (i) the outbreak of COVID-19 in the PRC since December 2019 which had led to temporary suspension of our operation and production from 30 January 2020 to 10 February 2020 inclusive and temporary disruption on the supply of raw materials to our production; and (ii) the recent widespread of COVID-19 to the countries to which our products are delivered, our Directors

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are of the view that the impact of the outbreak of COVID-19 on our Group's business operations and financial conditions is only temporary and not long-term. For more details, please see the paragraphs headed "Impact of the outbreak of COVID-19 on our business and operation" in this section.

OUR COMPETITIVE STRENGTHS

We believe that our success can be attributed to the following competitive strengths:

Our well-established Huzhou Production Plant enables us to achieve mass production of a wide range of products and economies of scale

Our self-owned Huzhou Production Plant has a gross floor area of approximately 58,441 sq.m. to carry out our production activities. Though we would engage plastic injection service providers to undertake the plastic injection moulding process of small and simple plastic components of our products when our plastic injection moulding machines are running close to their full utilisation, the assembly and production of all our products are undertaken by us at our own Huzhou Production Plant. For further details regarding our production facility and production capacity, please refer to paragraphs headed "Production facility — Our existing production facility" in this section.

We believe that the large production scale of our Huzhou Production Plant with high production capacity allows us to achieve economies of scale, thereby reducing the unit cost of our products.

To the best knowledge and belief of our Directors, when well-established international brand companies or multi-national corporations are selecting their OEM or ODM suppliers, they have stringent selection criteria and will conduct physical visits to their production plants. Furthermore, they are generally cost-cautious and require high production capacity and short production lead time. Our large-scale operations have not only enabled us to meet the requirements of our customers, but also allowed us to maintain a highly competitive cost structure. For example, we can purchase our major raw materials in bulk, which enhances our bargaining power to negotiate for a better price of raw materials and hence lowering per-unit costs of our products.

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Our product design and development capabilities enable us to offer a comprehensive product portfolio to our customers

Attributed to our product design and development capabilities, we offer a wide range of household necessity products to our customers to cater for their varying needs and requirements on product specifications. Apart from production, we also provide value-added services to our OEM and ODM customers including, among others, review of product designs based on our understanding on market trend and consumers' preference.

The product design and development process for our ODM and OBM products involves understanding customers' requirements and specifications for generating design concepts, transforming the design concepts into physical products, selection and procurement of suitable raw materials, and assessing technical feasibility of the entire production process. As such, we put great emphasis on product design and development and as at the Latest Practicable Date, our product design and development team comprised 11 staff members, which was headed by Mr. Mao, one of our executive Directors, who has over 33 years of technical management in the manufacturing industry in the PRC.

As at the Latest Practicable Date, our Group is the registered owner of 26 utility model patents, 15 design patents, 11 innovation patents, two community design patents, and one invention patent which are material to our business. Please refer to the paragraph headed "2. Intellectual property rights" in Appendix V to this prospectus for further details. During the Track Record Period, our product design and development team had been consistently introducing new or enhanced products every year. Please refer to the paragraphs headed "Product design and development" in this section for further details.

Our product design and development capabilities also enable us, to cope with changes in market trend and customer preferences, thereby meeting the varying needs and requirements of our customers; and demonstrate our competence to provide "one-stop" services covering market research, product design and development, production, quality control, logistics and after-sales services. As such, we can retain our existing customers and attract new customers, particularly brand owners or authorised agents of well-established international brands and multi-national corporations, etc.

We have a worldwide customer base

Our customers are mainly owners or authorised agents of well-established international brands which resell our products in overseas countries as wholesaler or as retailer for onward sale of our products to consumers.

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During the Track Record Period, our products were sold and delivered to more than 20 countries and regions, mainly including the United States, the United Kingdom, Germany and Australia. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our overseas sales contributed to approximately 99.1%, 98.6%, 98.9% and 99.7% of our total revenue, respectively, and approximately 44.9%, 44.4%, 46.3% and 26.9%, respectively, of the revenue was generated from the sales to the United States. Our extensive international sales network enables us to reach a diverse customer base. Our Directors believe that attributed to our commitment to stringent quality control, our value-added services in customers' product development and our accumulated experience in overseas markets, we have developed trust and solid business relationships with our customers.

The Bradshaw Group, which is a group of companies headquartered in the United States that engages in the sale of household products of its own brand and other well-established brands and our largest customer during the Track Record Period, has been in business with us since 2010. During the Track Record Period, the Bradshaw Group sold products manufactured by us across the United States under its own brands such as “*Casabella*”. To the best knowledge of our Directors, customers of the Bradshaw Group include retailers and supermarkets.

Customer A, which is a renowned group of companies with headquarters in Germany that engage in the sale and distribution of quality kitchen gadgets of well-established international brands and one of our five largest customers during the Track Record Period, has been in business with us since 2010. Customer B, which is a renowned Australian company that engages in the sale of laundry products and being one of our five largest customer during the Track Record Period, has been in business with us since 2011. Our other major customers include multinational supermarket or store chains.

In the United Kingdom, we have set up our subsidiary, BHP UK, to better manage our sales activities and serve our customers in the United Kingdom.

To reach out to local consumers in the PRC, we started selling our own “*Jia Ji Bao*” (家吉寶) branded laundry products, household cleaning tools and kitchen gadgets through e-shops at the established and popular platforms of independent third-party operators, such as taobao.com (淘寶網).

We are committed to high standard of quality control and quality assurance

As we develop and manufacture household necessity products primarily for well-established international brands, our customers require their OEM or ODM suppliers to manufacture products that can satisfy their stringent requirements in terms of safeness, quality, design and functions and meet the safety standards of different countries to which our products are exported. In this connection, our sales and marketing team, production team and QAQC team maintain

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communication and cooperation among one another to work out our production methodology and schedule to ensure that the requirements of different customers can be met and the latest market trend and new design can be integrated in our product development process.

We are also committed to implementing high standard quality control measures in incoming raw materials, production process and finished products, and recognise the importance of environmental protection and occupational health and safety. Our Group has obtained the ISO 9001 certification on quality management since 2015, ISO 14001 certification on environmental management system since 2015, and OHSAS 18001 on occupational health and safety management system since 2015.

As at the Latest Practicable Date, our QAQC team comprised 41 staff members, which was led by one team manager who has been accredited as internal auditor under ISO9001 certification on quality management since 2017. For further details regarding our quality control and quality assurance measures, please refer to paragraphs headed “Quality control and quality assurance” in this section. Attributed to our capability to manufacture products with high quality and safety standard, our Directors believe that we are able to continue to strengthen our position as OEM and ODM supplier for well-established international brands.

We have a stable management team with extensive industry experience and proven track record of delivering sustainable growth and profitability

Our management team has shown continuous commitment and dedication to our Group. Our management team is led by Mr. Zhu, our chairman, executive Director and one of our founders, who possesses more than 28 years of experience in the household necessity product manufacturing industry, and is responsible for the overall management, strategic development and major decision-making of our Group. Our other executive Directors and founders, each of Mr. Fang and Mr. Mao, has over 19 years and 33 years in the household necessity product industry, respectively. We believe that our Directors’ solid industry experience is a major factor contributed to our Group’s success. All the department managers have at least five years of experience with us, whereas the majority of our management team have been with our Group, on average, for over 10 years.

Their strong industry knowledge has enabled us to formulate sound business strategies, assess and manage risks, anticipate changes in consumer preference, maintain long-term business relationship with our customers and capture market opportunities. Please refer to the section headed “Directors and senior management” in this Prospectus for further details.

We believe that our Group will continue to benefit from the experience and business acumen that our management team possesses and we are confident about its ability to make a great contribution to the advancement of our business.

OUR BUSINESS STRATEGIES

Our goal is to achieve sustainable growth in our current business and strengthen our production capacity to secure more business opportunities by implementing the following business strategies:

I. Expand our production capacity by establishing the New Production Plant

We plan to set up a new production plant to be located in proximity to our Huzhou Production Plant (the “**New Production Plant**”) to enhance our production capacity in plastic injection moulding process and to expand our warehousing spaces. As our products are mainly composed of plastic components, plastic injection moulding process forms the bottleneck in the manufacturing of our products.

Expected increase in our production capacity

The expansion of our production capacity in plastic injection moulding process will take place by two stages in September 2022 and September 2023, respectively whereby our maximum annual designed capacity for laundry products and household cleaning tools will reach 1,858,000 units and 10,178,000 units, respectively by the end of 2022; and 2,658,000 units and 13,378,000 units, respectively by the end of 2023. In this connection, the production capacity to be contributed by the new machinery and equipment for a year will be calculated in proportion to the number of working days on which the new machinery and equipment for carrying out the plastic injection moulding process will commence commercial production during the year and will reflect its maximum annual designed capacity upon full operation in the following year. The resulting total effective designed capacity of laundry products and household cleaning tools is expected to increase by approximately 22.1% and 13.4% for the year ending 31 December 2022, 97.7% and 59.2% for the year ending 31 December 2023 and 151.2% and 91.7% for the year ending 31 December 2024, respectively compared with the maximum annual designed capacity as at 31 December 2020. Based on our Group’s forecasted production volume for the years ending 31 December 2022, 2023 and 2024, the estimated utilisation rate of our production facilities after implementation of our expansion plans would be 97.7%, 94.7% and 98.5% for laundry products, and 98.5%, 96.0% and 98.8% for household cleaning tools, respectively.

As our existing plastic injection machines are not fully automated whereby our workers have to load polypropylene resins into our plastic injection machines and unload the finished plastic components from the plastic injection machines ready for further processes such as assembling, inspection and testing, the installation of automated plastic injection machines in the New Production Plant can enhance the automation level of our plastic injection moulding process and

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an automated robotic arm can lift a moulded part out of one plastic injection machine and assist in combining two or more moulded parts for further processing, which also reduces the time for assembling and improves the quality and consistency of our products.

By that time, we will gradually reduce and cease the outsourcing of the plastic injection moulding process by carrying out all plastic injection moulding process by our in-house production machinery and equipment; and we will engage external plastic injection service providers only on an as-needed basis, i.e. when our enlarged production capacity cannot take up the then purchase orders from customers.

In coming up with our plan to establish the New Production Plant, our Directors are satisfied that there will be sufficient market demand for our Group's products and there are business needs for expanding our Group's production capacity of laundry products and household cleaning tools due to the following reasons:

Sufficient market demand for our Group's products

Our Directors believe that there would be sufficient market demand for our products based on the following analysis: –

- (i) *Industry growth* — According to the CIC Report, the export value of drying racks and household cleaning tools in the PRC is expected to grow from 2021 to 2025, and the expected growth of the export value of drying racks and household cleaning tools in the PRC in terms of monetary value represents a respective increase of approximately USD54.2 million and USD1,082.0 million between 2021 and 2025 and a CAGR of approximately 3.4% and 3.4%, respectively. For details, please refer to the section headed “Industry Overview” in this prospectus. Given the magnitude of the expected increase in export value of these products, our Directors consider that there exists a sufficient market demand for our Group's products. In addition, according to the CIC Report, on the basis that the lockdown measures imposed by governments of various countries due to the outbreak of COVID-19 will ease in 2021, the market size of drying racks and household cleaning tools is expected to recover from the second half of 2021 onwards.
- (ii) *Development of our own-brand products* — To reach out to local consumers in the PRC, our Group also plans to further promote and develop our own “Jia Ji Bao” (家吉寶) brand products by leveraging our OEM and ODM experience and expertise. Our Directors believe that once our production capacity is expanded, we would have spare production capacity to manufacture our own-brand products. According to the CIC Report, the retail sales value of drying racks and household cleaning tools in the PRC is expected to increase from 2021 to 2025. For details, please refer to the section headed

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“Industry Overview” in this prospectus. The expected growth of the retail sales value of drying racks and cleaning tools in the PRC indicates that there are emerging opportunities in the PRC market, which further reinforces the strategic importance of expanding our production capacity.

- (iii) *Consolidation of market players* — According to the CIC Report, the market share of the top five players in the PRC’s drying rack manufacturing market and household cleaning tool manufacturing market in terms of export revenue respectively increased from approximately 30.0% to 32.6% and from approximately 2.3% to 2.7% from 2018 to 2020; and owing to the fierce competition in the market, certain smaller players in the household necessity product industry were phased out and the number of drying rack manufacturers in the PRC decreased by a CAGR of approximately 1.7% from 2018 to 2020 whereas the number of household cleaning tools manufacturers in the PRC decreased by a CAGR of approximately 1.2% from 2018 to 2020. Our Directors believe that the household necessity product industry in the PRC will continue to consolidate, with top players continue to dominate and capture a substantial portion of the industry growth while smaller players with small production scale will gradually decrease in number on the basis that the top players can usually satisfy customers’ demands with their strong design and development capabilities and scale of production, achieve higher profitability, generate stable revenue due to their established reputation and sales channels to sustain their businesses.
- (iv) *Our competitive advantages over other top market players in the PRC’s drying rack manufacturing industry* — Our Directors believe that our strong design and development capabilities, which can be evidenced by the number of innovative patents we own, coupled with our diversified product offering, has distinguished our Group from other top market players in the PRC’s drying rack manufacturing industry. As at the Latest Practicable Date, our Group was the registered owner of 11 innovation patents, whereas, according to the CIC Report, each of the other top five market players only owned zero to two innovation patents. Of the top five market players, we are the only company that has a product portfolio that comprises three product categories, namely, laundry products, household cleaning tools and kitchen gadgets, while the others’ product portfolio comprises either drying racks or drying racks and one other product category. The types of drying rack products offered by us are also more comprehensive, which cover foldable/upright drying racks, rotary drying racks and wall-mounted drying racks whereas our peers generally focus on offering only one or two types of the drying racks. Moreover, according to the CIC Report, the price range of our products is wider than that offered by the other top five players, allowing our products to reach a wider customer base. Our Directors believe that in light of the above, which is further detailed in the paragraphs headed “Our competitive strengths” in this section, our Group is well-positioned to capture further market share going forward.

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Sufficient business needs to expand our Group's production capacity

- (i) *Our Group's current production capacity had constrained the extent of our business growth during the Track Record Period and there are confirmations from our major customers that they would increase their purchase volume if our Group is able to take up orders of a larger volume.* As our limited production capacity had constrained the growth of our revenue, we strategically focused on developing and producing products with higher selling price and profitability, and our sales and marketing team had refrained from proactively soliciting more purchase orders from our customers or potential customers and only maintained a similar level of purchase orders from our major customers during the Track Record Period. As such, our Group's overall gross profit margin increased from 28.1% for the year ended 31 December 2019 to 29.7% for the year ended 31 December 2020. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, the purchase orders initially placed by customers but subsequently declined by us (excluding those potential purchase orders enquired by our existing customers or potential customers to which we refrained from further negotiation, which cannot be quantified) amounted to approximately RMB0.2 million, RMB1.7 million, RMB2.4 million and RMB1.5 million, respectively. On the other hand, six of our Group's existing major customers including the Bradshaw Group, have indicated by way of written confirmation that they would increase their purchase volume with our Group if our Group is able to take up orders of a larger volume. Based on these confirmations, if our Group's production capacity can be expanded according to our expansion plan whereby our Group can be more flexible to take up more orders, the demand for our laundry products and household cleaning tools by existing major customers is expected to increase by approximately 0.9 million units and 2.6 million units, respectively. Our Directors believe that these confirmations from brand owners or authorised agents of well-established international brands served as a good indicator of sufficient demands for our Group's products from our existing customers to support our Group's expansion plan.
- (ii) *Outsourcing the plastic injection moulding process to external plastic injection service providers is not a radical or definite solution to ease the saturation of our machinery.* During the Track Record Period, we had to outsource part of the plastic injection moulding process to external plastic injection service providers on an as-needed basis when our production facilities had been running close to their full utilisation, which helped alleviate the nearly saturated utilisation of our machines. Yet, our Directors believe that this is not a radical or definite solution nor is it conducive to the long-term sustainable development of our business. Whilst our Group's products are composed of plastic components of varying sizes, shapes and delicacies, depending on the original design of the products or requirements of individual OEM or ODM customers, our Group can or would only outsource certain plastic injection processes for production of small and simple plastic components, such as covers, caps and clips, being mainly ancillary parts of our products, to the external plastic injection service

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providers, as the manufacture of which requires less workmanship and only involves the use of standard mould base. The remaining plastic components cannot be outsourced as the production of which requires using moulds of specific designs and involves a high level of precision and unique workmanship. Moreover, it is impracticable for our Group to consider an alternative arrangement of providing our own moulds of specific designs to external plastic injection service providers on each occasion as it may lead to a risk of unauthorised use or duplication of the moulds and jeopardise the integrity of the product designs of our customers. As such, the continual or even enhanced reliance on outsourcing the plastic injection moulding process cannot significantly assist us in increasing our production capacity at all. Our Group will have more flexibility and control over the production schedule and production process of our products if the entire plastic injection moulding process of all our products takes place in our Huzhou Production Plant and the New Production Plant.

(iii) *The New Production Plant is needed to house our Group's new plastic injection moulding machines and other ancillary machinery and equipment.* For further details related to our lack of spare space, please refer to paragraphs headed "(i) Construction of the New Production Plant" in this section.

Based on the above, our Directors take the view that there will be sufficient market demand and business needs for our Group to expand our production capacity.

Proposed capital expenditure for establishing the New Production Plant

The New Production Plant will be located in proximity to our Huzhou Production Plant. As such, the plastic components manufactured in the New Production Plant can be effectively delivered to our Huzhou Production Plant for further processing and assembling to finished products. Raw materials and the work-in-progress will be stored in the smart warehouse of the New Production Plant.

We plan to utilise an aggregate of approximately RMB62.1 million (equivalent to approximately HK\$70.8 million) for establishing the New Production Plant and acquiring new machinery and equipment to expand our production capacity and efficiency, of which RMB41.5 million (equivalent to approximately HK\$47.3 million) will be paid by the net proceeds from the Global Offering, representing 55.0% of such net proceeds, and the remaining sum of approximately RMB20.6 million (equivalent to approximately HK\$23.5 million) will be financed by our internal resources and/or bank loans.

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The details of the estimated capital expenditure of approximately RMB62.1 million in relation to the establishment of the New Production Plant are set out as follows:

| Purpose | Establishment of New Production Plant | |
|---|--|----------------------|
| | Phase I | Phase II |
| | <i>(RMB'million)</i> | <i>(RMB'million)</i> |
| Land acquisition cost ^(Note 1) | 11.9 | — |
| Construction of the New Production Plant ^(Note 2) | 23.6 | — |
| Purchase of new plastic injection machines ^(Note 3) | 7.9 | 7.6 |
| Purchase of new ancillary machinery and equipment ^(Note 3) | 8.9 | 2.2 |
| Total | 52.3 | 9.8 |

Notes:

1. The land acquisition cost is estimated based on the prevailing market price of the land at the proximity of our Huzhou Production Plant and an approximate site area of 16,000 sq.m. and will be paid by the proceeds from the Global Offering.
2. The estimated cost for constructing the production facility and the smart warehouse includes both the building cost, the renovation cost based on the preliminary quotations we obtained from the building contractors in the PRC and the cost for acquisition of smart warehouse system, of which approximately RMB14.0 million will be paid by the proceeds from the Global Offering.
3. For details of the breakdown of the cost for acquisition of new machinery and equipment, please see the paragraphs headed “Expand our production capacity by establishing a New Production Plant and warehousing — (ii) Acquisition of new machinery and equipment for the New Production Plant” in this section.

Proposed location of the New Production Plant

In selecting the location of the New Production Plant, we have considered a number of criteria, among others, including (i) whether there exists any mature infrastructure development in terms of water supply, water drainage, electricity supply, heat supply and transportation network for such location; and (ii) whether the land is in close proximity to our Huzhou Production Plant to allow a more efficient management of our daily operations and facilitate collaboration among our different departments. As at the Latest Practicable Date, we have identified a parcel of land located in Deqing County, Huzhou City, Zhejiang Province, the PRC with a total site area of approximately 16,000 sq.m., which our Directors consider to be a feasible location of our New Production Plant and we have submitted a written application for approval from the relevant local administrative authority in respect of our project for setting up the New Production Plant. We will proceed to acquire the land after receipt of the said approval.

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The expected key procedures for the acquisition of the land are as follows:

| Key procedures | Proposed timeline |
|---|--------------------------|
| Expected date of the application results in respect of our application for the approval of our project in setting up the New Production Plant | October to November 2021 |
| Obtain the confirmation letter issued by the local bureau of the Ministry of Natural Resources of the PRC* (中華人民共和國自然資源部) or the relevant authority in respect of the land use rights of the land | October to November 2021 |
| Complete the acquisition of the land | November 2021 |

Once we have completed the acquisition of the land and the ancillary rights in the manner set out above, our expansion in this respect can be further divided into three stages, namely, (i) construction of the New Production Plant; (ii) acquisition of new machinery and equipment for the New Production Plant; and (iii) setting up a smart warehouse in the New Production Plant.

(i) Construction of the New Production Plant

We have been operating our Huzhou Production Plant since 2010. Along the expansion of the scale of our business operations throughout the years, we encountered limitations to expand our production capacity due to space constraint and the layout of our Huzhou Production Plant for installation of additional large-sized machinery. Given the production of our products has to go through various processes with different machinery and equipment such as plastic injection machines, conveying belt and system and power coating machines etc. which are large-sized, they have to be placed and installed in a planned and orderly manner to ensure they are operated safely. Of the gross floor area of approximately 58,441 sq.m. of our Huzhou Production Plant, approximately 30,231 sq.m. has been used for production where our production machinery and equipment are housed; and approximately 28,210 sq.m. for warehousing, office, dormitories and ancillary facilities. The area of our Huzhou Production Plant allocated for production has been substantially occupied by our major machinery and equipment for the manufacturing of the metal components, washing line components and plastic components of all our products together with

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over 600 production workers. Thus, it has no further spare space to house a large number of additional large-sized machinery. The following table sets forth the breakdown of the respective gross floor area of our Huzhou Production Plant and New Production Plant by the usage of the allocated space:

| Usage | Huzhou Production Plant | New Production Plant |
|--|----------------------------|-------------------------|
| | (sq.m.) | (sq.m.) (estimated) |
| Production workshops | 30,231 | 18,800 |
| Warehouse | 17,762 | 2,200 |
| Offices | 6,055 | 700 |
| Dormitories and ancillary facilities <i>(Note)</i> | 4,393 | 200 |
| Total | <u>58,441</u> | <u>21,900</u> |

Note: Ancillary facilities also includes environmental protection and/or safety facilities.

Though the production workshops of our Huzhou Production Plant doubles the size of that in the New Production Plant and both production facilities will ultimately house a similar number of plastic injection machines, the Huzhou Production Plant serves multi-purposes in the manner set out above and would need more space but the New Production Plant will mainly complement the operation of our Huzhou Production Plant by undertaking the plastic injection moulding process and thus, the number of machines and equipment housed or to be housed in these two production plants will not be in proportion to their respective site area due to the following reasons:

a. Different production process(es)

Upon completion of the New Production Plant, it will primarily be undertaking the plastic injection moulding process for the production of plastic components while the Huzhou Production Plant will carry out the production of metal components and washing line components on top of the plastic components and undertake other production processes, such as washing line extrusion and cutting, powder spraying etc. and the assembling of our products. Moreover, our Huzhou Production Plant also houses manual assembly lines which require over 600 workers, and therefore take up considerable space. On the other hand, as the machines to be installed in the New Production Plant are more advanced and higher automation level which require less number of workers, a more compact factory layout can be organised in the New Production Plant.

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b. Different floor plan design

Given the current layout of the Huzhou Production Plant and its power supply infrastructure, our Directors are of the view that in order to install new machinery and equipment in the Huzhou Production Plant, our Group will have to remodel the Huzhou Production Plant, which is less flexible than to design a new layout in the New Production Plant.

In light of the above, our Directors believe that the New Production Plant with a gross floor area of approximately 21,900 sq.m can ease the space constraint of our Huzhou Production Plant and will allow us to segregate different types of machines based on their functions performed in the production process of our products.

We expect that after the New Production Plant is in full operation, the maximum annual design capacity of our laundry products and household cleaning tools is expected to increase while our operating expenses could be reduced by converting the alternative arrangement of outsourcing part of the plastic injection moulding to external plastic injection service providers to in-house production. The table below sets forth the estimate of our annual operating expenses for setting up the New Production Plant with the new machinery and equipment in comparison with the historical expenses for outsourcing the plastic injection moulding, respectively:

| Annual expenses | New Production Plant with automated machinery and equipment | Outsourcing to plastic injection processing providers |
|--|---|---|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Depreciation expense of the New Production Plant <i>(Note 1)</i> | 1,352 | — |
| Depreciation expense of new machinery and equipment <i>(Note 2)</i> | 2,527 | — |
| Labour expenses | 3,744 <i>(Note 3)</i> | 360 <i>(Note 4)</i> |
| Outsourcing expenses <i>(Note 5)</i> | 2,525 | 15,938 |
| Total | 10,148 | 16,298 |

Notes:

1. Depreciation expense of the New Production Plant is calculated using the straight-line method to allocate their costs, net of their residual value which is assumed to be 5% of the acquisition cost, over their estimated useful lives of 50 years and 20 years for land and building, respectively.
2. Depreciation expense of the new machinery and equipment is calculated using the straight-line method to allocate their costs, net of their residual value which is assumed to be 5% of the acquisition cost, over their estimated useful lives of 10 years.

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3. This represents the expected direct labour costs to be incurred at the New Production Plant and is estimated based on the historical average staff cost incurred in our own production process.
4. This refers to our staff costs incurred in supervising production process of the external plastic injection service providers.
5. This is based on the historical processing fees paid to external plastic injection service providers for the year ended 31 December 2020. The estimated outsourcing expenses upon the establishment of the New Production Plant is based on the projected volume of household cleaning tools products to be outsourced for plastic injection process assuming the New Production Plant is fully utilised.

Apart from saving the annual operating costs which is estimated to be approximately RMB6.2 million, the establishment of the New Production Plant would not only expand our production capacity, but also enable us to be better equipped to capture the expected growth of drying rack and household cleaning tool markets.

Payback period and breakeven point

We consider that our New Production Plant would achieve breakeven when the revenue generated by it covers its operating costs and expenses (excluding depreciation charge) incurred in the same year on an accounting basis. The production scale required to achieve breakeven would vary, depending on various factors, such as general economic and market conditions, market demands, utilisation rate of our production lines, market competition and costs of production. We consider that our New Production Plant would achieve investment payback when the total future net cash flow generated from operating activities once the commencement of its commercial production has covered the total investment amount including land acquisition cost, construction cost and machinery and equipment acquisition cost. The time required to achieve investment payback would also vary, depending on various factors, including those mentioned above and the actual capital expenditure such as costs of machinery and equipment.

Given our maximum annual designed capacity will be increased by approximately 1,600,000 units of laundry products and approximately 6,400,000 units of household cleaning tools by September 2023 after the New Production Plant has commenced full operation, it is estimated that, based on our Directors' knowledge and experience, the payback period for our New Production Plant will be approximately 35 months and that breakeven could be achieved within approximately one month.

(ii) Acquisition of new machinery and equipment for the New Production Plant

We intend to purchase an additional 64 plastic injection machines, 60 automated robotic arms, 60 conveying belts and other ancillary machinery and equipment for installation in our New Production Plant.

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Based on the preliminary quotations obtained by us and our Directors' experience, we estimate that the capital expenditure for the acquisition of new machinery and equipment will be approximately RMB26.6 million (equivalent to approximately HK\$30.3 million), of which approximately RMB15.5 million and RMB100,000 (equivalent to approximately HK\$17.8 million and HK\$114,000, respectively), representing approximately 20.5% and 0.1% of the net proceeds from the Global Offering, will be paid by the net proceeds from the Global Offering for purchase of plastic injection machines and other ancillary machinery and equipment, respectively and the remaining sum of approximately RMB11.0 million (equivalent to approximately HK\$12.5 million) will be funded by our internal resources and/or bank loans.

The details of the new machinery and equipment to be housed in the New Production Plant and their estimated cost are as follows:

| New machinery and equipment | Principal use | Number of units | Expected useful lives (Years) | Estimated costs (RMB million) |
|---|---|----------------------|----------------------------------|----------------------------------|
| Plastic injection machines | Used for moulding melted polypropylene resin mixture in its mould cavity to manufacture the plastic parts of our products | 64 | 10 | 15.5 |
| Automated robotic arms | Used for loading and injecting polypropylene resin to the automated injection machines | 60 | 10 | 2.4 |
| Conveying belt and system | Used for carrying the work-in-progress pieces to different production stations | 60 | 10 | 2.7 |
| Other ancillary machinery and equipment ^(Note) | Used to carry out different aspects of our production process | 26 ^(Note) | 5-10 | 6.0 |
| Total | | | | 26.6 |

Note: Other ancillary machinery and equipment includes various machinery and equipment for power distribution, water supply and environmental protection and safety, etc.

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The following table sets forth the respective number of machines to be acquired in each phase of completion of the New Production Plant and the maximum designed annual capacity of these new machines:

| Purpose | Expansion plan | |
|--|----------------|-----------|
| | Phase I | Phase II |
| Number of automated plastic injection machines | 32 | 32 |
| Number of automated robotic arms | 30 | 30 |
| Maximum designed annual capacity (units) | | |
| Laundry products | 800,000 | 800,000 |
| Household cleaning tools | 3,200,000 | 3,200,000 |

(iii) Setting up a smart warehouse in the New Production Plant

In alignment with the increase in our production capacity following the commencement of operation of the New Production Plant, we plan to set up a smart warehouse in the New Production Plant with an area of approximately 2,200 sq.m. for storage of raw materials and work-in-progress products. This smart warehouse can keep track on the amount of inflow and outflow of raw materials and the work-in-progress parts and also integrate with our existing ERP system and the MES system to be acquired with the funding from the Global Offering so that we can better monitor the procurement of raw materials, production and storage of our raw materials and work-in-progress products. Since December 2020, our Group has leased premises located in Huzhou City, Zhejiang as additional warehouse space. For additional information on the leased properties of our Group, please refer to the paragraphs headed “Leased properties” in this prospectus. Considering the increasing trend in utilisation rate of our existing warehouse in the Huzhou Production Plant being 68.4%, 78.4%, and 84.2% and 86.9%, during the Track Record Period, respectively and the need for more warehousing space to align with the expansion plan of our production capacity, we intend to set up the smart warehouse in the New Production Plant.

For setting up the smart warehouse in our New Production Plant, we will implement the following plans:

- (i) *Optimising the storage space:* We plan to optimise our warehousing space by dividing the warehouse into different sections for raw materials and work-in-progress. In each section, there will be different zones and shelving units specifically for different kinds of raw materials and work-in-progress in terms of their nature and sources. Moreover, we aim to enhance our efficiency by reducing the time for locating and retrieving required items and the security and safety of our warehouse;

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- (ii) *Installation of smart warehouse system:* A smart warehouse system which can consolidate our warehouse data into an accessible platform to give us a real-time data and statistic about the status of our inventories so that we can devise our procurement and inventory planning more accurately and in a more timely manner;
- (iii) *Installation of automated picking tools and vehicles:* We plan to purchase automated picking tools and vehicles like artificial intelligent robots to handle the retrieving and delivery of items within the smart warehouse;
- (iv) *IoT implementation:* We intend to deploy the IoT system to synchronise our data in an easy-to-access network which in turn helps optimise our inventory control, procurement planning and reduce the turnaround time for retrieving and storage of items; and
- (v) *Installation of ancillary equipment:* The smart warehouse will be installed with ancillary equipment such as security sensors, spoilage, temperature and moisture monitors.

II. Enhance the production efficiency of our Huzhou Production Plant

As the New Production Plant will carry out plastic injection moulding process for manufacturing the plastic components of our products for onward delivery to our Huzhou Production Plant for further processing and assembling to finished products, the production capacity of our existing Huzhou Production Plant has to be enhanced correspondingly.

Based on the preliminary quotations obtained by us, we estimate that the capital expenditure for the acquisition of new machines and equipment for our Huzhou Production Plant will be approximately RMB6.8 million (equivalent to approximately HK\$7.8 million), of which approximately RMB6.0 million (equivalent to approximately HK\$6.8 million), representing approximately 7.9% of the net proceeds from the Global Offering, will be paid by the net proceeds from the Global Offering and the remaining sum of approximately RMB0.8 million (equivalent to approximately HK\$0.9 million) will be funded by our internal resources and/or bank loans.

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Acquiring new machines and equipment for our Huzhou Production Plant

We plan to purchase the following new machines and equipment for our Huzhou Production Plant:

| Types of machinery and equipment | Functions | Quantity | Expected useful lives | Estimated costs |
|---------------------------------------|---|----------------|-----------------------|----------------------|
| | | <i>(units)</i> | <i>(years)</i> | <i>(RMB million)</i> |
| Automated powder coating lines | Used for coating of metal with powder | 2 | 10.0 | 2.0 |
| Automated plastic spraying machines | Used for spray painting on our products with high level | 2 | 10.0 | 0.5 |
| Semi-automated brush filling machines | Used for filling of brushes into plastic bases for our household cleaning tools | 2 | 10.0 | 4.3 |
| | | | Total | 6.8 |

The above new machines and equipment to be acquired will be complementary to our existing machines and equipment and are not for replacing the existing machines and equipment and thus, the installation of which in our Huzhou Production Plant would fully occupy its spare space. Our Directors expect that these machines and equipment would enable us to cope with the projected increase in our production volume of our products after completion of the New Production Plant and enhance the automation level of our Huzhou Production Plant and result in a reduction in our direct labour cost as a result of reduced manual works.

Our Directors expect that while there will be a slight increase in operating expenses, such as repair and maintenance expenses and utilities expenses due to the installation of these additional machines and equipment, the reduction in staff cost resulting from reduced manual works will be able to set off the increase in operating expenses.

We consider that the new machines and equipment for installation in our Huzhou Production Plant would (i) achieve breakeven when the revenue generated and cost saved by them can cover their expenses incurred in the same year/period on an accounting basis; and (ii) achieve investment payback when the net cash flow generated from them has covered the total investment amount. On this basis, it is estimated that the payback period for such new machines and equipment will be approximately 33 months and the breakeven will be approximately one month after they have commenced operation.

III. Develop an integrated smart manufacturing system to ensure effective execution of our manufacturing process and enhance our production efficiency

We currently rely on our ERP system to manage our inventory and monitor our manufacturing process. In view of the growing trend of automation and data exchange in manufacturing technologies and to further improve our operational efficiency, we plan to strengthen our competitiveness as a well-established manufacturer by developing an integrated smart manufacturing system (the “**MES system**”) to allow us to monitor each stage of our production in real time and respond timely to any changes in production conditions. To develop and implement an integrated smart manufacturing system, we expect to acquire and install a MES system in our Huzhou Production Plant to integrate with our existing ERP system in order to achieve a better control of our sales and production information, monitor the procurement of raw materials and the manufacturing process on real time basis and manage our relationship with individual customers and suppliers.

Furthermore, with an advanced integrated smart manufacturing system, we can collect, trace, store, manage and interpret data collected from our procurement, warehousing and manufacturing activities as it continuously records and updates various aspects of these activities and processes. An advanced MES system can also track and monitor our resources including the inventory level of our raw materials, utilisation of our production capacity from time to time and the status of our sales and purchase orders, in a timely manner. The data collected in the assembling and manufacturing process in the MES system can be integrated with our ERP system for further consolidation, analysis and information reporting. As such, an integrated smart manufacturing system not only ensures accurate monitoring of the manufacturing process and improves our production efficiency but also facilitates us to plan and iron out our business expansion plan. We also intend to upgrade our IT infrastructure to cater for an anticipated increase in data transmission among our production and other key operating processes. To achieve this, we plan to, among others, (i) establish a cloud system which collects and shares real time data of orders and operations; and (ii) strengthen network security and control.

The estimated total costs for developing the integrated smart manufacturing system and upgrading our IT infrastructure are approximately RMB2.0 million (equivalent to approximately HK\$2.3 million), of which approximately RMB1.6 million (equivalent to approximately HK\$1.8 million), representing 2.1% of the net proceeds from the Global Offering, will be paid by the net proceeds from the Global Offering and the remaining sum of approximately RMB0.4 million (equivalent to approximately HK\$0.5 million) will be financed by our internal resources and/or bank loans.

IV. Expand our sales and marketing network

According to the CIC Report, the import value of drying racks in the United Kingdom, Australia and Germany is expected to increase from 2021 to 2025 and the import value of cleaning tools in the United States is expected to increase from 2021 to 2025. For details, please refer to the section headed “Industry Overview” in this prospectus. In order to seize these business opportunities and to reach out to more well-established international brands while at the same time consolidating the long-term business relationship with our customers, we intend to continue to expand our sales and marketing network in the overseas markets.

We had also started developing and manufacturing laundry products, household cleaning tools and kitchen gadgets under our own brand “*Jia Ji Bao*” (家吉寶) to tap into the local markets in the PRC since December 2017. Our own-brand products are mainly sold through e-shops in the PRC, such as taobao.com (淘寶網).

Our Directors believe that a focused sales and marketing strategy to both the overseas and the PRC markets in the following ways will help boost the sales of our products in both overseas and the PRC markets and to better utilise our increased production capacity.

(i) Participating in and attending more industry exhibitions and fairs

For the two years ended 31 December 2018 and 2019, we attended five and three trade fairs and exhibitions to showcase our products and increase our exposures in the market and more than 60 companies expressed their interest in our products or requested a quotation from us during or after industry exhibitions or trade fairs, which demonstrates the success of our past experience in this respect. Of these 60 companies, approximately ten companies subsequently established business relationship with us by becoming our customers. Though the sales obtained directly from these events were not significant, our Directors believe that we can indirectly benefit from attending these trade fairs and exhibitions, to the extent that we can promote brand awareness among industry players, strengthen our Group’s corporate image and provide our sales and marketing executives with opportunities to exchange business contacts with our targeted and potential customers. Our Group attended only one trade fair for the year ended 31 December 2020 and did not attend any trade fair during the four months ended 30 April 2021 as many trade fairs and exhibitions were cancelled or postponed due to the COVID-19 outbreak. However, we intend to attend more trade fairs and exhibitions once the draconian measures imposed by various governments are relaxed or when COVID-19 can be successfully contained, as our Directors expect that by then more industry players would proactively attend large-scale or international exhibitions and trade fairs to showcase their products and promote their brand awareness. This allows our existing or potential customers to have a better understanding of our latest product offerings and provide us with their feedbacks and views on our products, which creates an

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effective interface between our customers or potential customers and us. Further, we can gain an overview of the latest market trend on our household necessity products and an opportunity to evaluate the products of our competitors.

In view of the above advantages, we intend to (i) attend more industry exhibitions and trade fairs and (ii) enhance our presence by increasing the scale and enhance the design of our show booths at these industry exhibitions and trade fairs. The following table sets out details of some of the major industry exhibitions and trade fairs we intend to attend in the years ending 31 December 2021, 2022 and 2023:

| <u>Industry exhibitions and trade fairs</u> | <u>Locations</u> | <u>Target customers</u> |
|--|-------------------------------|---|
| The Inspired Home Show | Chicago, the United States | Distributors and retailers in North and South America |
| East China Fair (華交會) | Shanghai, the PRC | Supermarket customers in the PRC |
| Canton Fair (廣交會) | Guangzhou, the PRC | Buyers, traders, distributors and retailers around the world |
| Shanghai Commodity Fair* (上海日用百貨展) | Shanghai, the PRC | E-commerce customers in the PRC |
| Shanghai Private Brand Exhibition* (上海自有品牌展) | Shanghai, the PRC | Supermarket customers in the PRC |
| Hangzhou Net Red Live E-commerce Expo (杭州網紅直播 電商博覽會) | Hangzhou, the PRC | Distributors and retailers in the PRC |
| Frankfurt Exhibition | Frankfurt, Germany | Distributors, retailers and traders in Europe |

We intend to utilise an aggregate sum of approximately RMB5.3 million (equivalent to approximately HK\$6.0 million) for attending the above industry exhibitions and trade fairs, which will be funded by the net proceeds from the Global Offering, representing approximately 7.0% of the net proceeds from the Global Offering.

(ii) Recruiting additional sales and marketing executives

Our Directors consider that personnel of our current sales and marketing team would not have spare capacity to assume additional responsibilities arising from our expansion plan given their current workload. As at the Latest Practicable Date, we had a sales and marketing team composed of one executive who is responsible for the sales and marketing activities for the PRC market, nine executives who are responsible for the sales and marketing activities for the overseas market and six executives who provide administrative and after sales support to our sales and marketing functions. As such, it is necessary for our Group to hire additional personnel to (i) help secure new

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customers from both overseas markets and the PRC markets; (ii) perform the relevant market research on the trend of household necessity products and to reach out to potential new customers; (iii) attend trade fairs and exhibitions to explore more business opportunities; and (iv) handle the expected increase in purchase orders from both our existing customers and new customers following the expansion of our production capacity. Moreover, since we lack relevant expertise, we intend to recruit sales and marketing executives in the PRC who are experienced in using digital channels for marketing such as social media, email marketing, search engine rankings, online display advertisements and corporate blogs and in operating online shops.

The PRC team will focus on building up our brand awareness and promoting our own-brand products through digital channels such as social media, email marketing, search engine rankings, online display advertisements and corporate blogs in order to boost the sales of our products at the existing e-shops platforms at which our products are displayed and our flagship online shop to be established in the PRC market. The overseas team will continue to reach out to more international renowned brands of household necessity products and to maintain business relationship with our existing customers.

The following table sets out the preferred qualifications, experience and salaries of the nine sales and marketing personnel to be recruited with the net proceeds from the Global Offering:

| Position | Number | Preferred experience and Qualifications | Estimated average monthly salary |
|-------------------------------|--|---|----------------------------------|
| | | | <i>RMB'000</i> |
| Sales and marketing executive | 9, of whom 4 are responsible for overseas markets and 5 are responsible for the PRC market | <ul style="list-style-type: none"> • Tertiary education, majoring in business and marketing; and • Having at least two years' experience in sales and marketing of household necessity products in the PRC or overseas market, preferably through digital channels and have experience in setting up and operating online shops | 11 |

We intend to utilise an aggregate sum of approximately RMB2.1 million (equivalent to approximately HK\$2.4 million) for recruiting additional sales and marketing executives, which will be funded by the net proceeds from the Global Offering, representing approximately 2.8% of the net proceeds from the Global Offering.

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(iii) Exploring more effective online marketing strategies

Owing to (i) our lack of spare production capacity to manufacture our own-brand products in a large scale during the Track Record Period; (ii) the absence of any large-scale online marketing activities to promote our own-brand products; (iii) the limited functions of the existing e-shop platform for the sale of our own-brand products; and (iv) our sales and marketing team's lack of experienced personnel who had expertise in digital marketing or operation of e-shops during the Track Record Period, the revenue generated from the sale of our "Jia Ji Bao" (家吉寶) brand products through e-shops during the Track Record Period was insignificant. Revenue generated from our own-brand products sold in the PRC amounted to approximately RMB1.0 million, RMB0.4 million, RMB0.1 million and RMB22,000, respectively, for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021. Correspondingly, for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our sales and marketing expenses by online marketing channels remained minimal, amounting to approximately RMB0.1 million, RMB0.1 million, RMB0.1 million and nil respectively.

Despite the above, considering the increased internet penetration rates, the rapid development of online shopping in the PRC and widespread use of smartphones in the PRC nowadays, we intend to (i) develop advanced mobile phone applications in order to promote our brand and products; (ii) pay for more favourable screen space on relevant e-commerce portals; (iii) exploit online social media platforms such as WeChat and Weibo to disseminate our product information to targeted customers and raise brand awareness; and (iv) adopt search engine optimisation measures to increase the visibility and web traffic of our existing and future product displays.

We intend to utilise an aggregate sum of approximately RMB2.9 million (equivalent to approximately HK\$3.3 million) for this purpose for online marketing activities. Approximately RMB2.5 million (equivalent to approximately HK\$2.9 million), or approximately 3.3%, of the net proceeds from the Global Offering will be used to this end and the remaining sum of approximately RMB0.4 million (equivalent to approximately HK\$0.5 million) will be funded by our internal resources and/or bank loans.

(iv) Strengthening our online sale by revamping our existing product display at our e-shops and setting up a new flagship online shop

According to the CIC Report, online sales channels are particularly effective for promoting brands and products in the PRC markets and online shops will become an important shopping channel for consumers of household necessity products in the PRC. In particular, the outbreak of COVID-19 pandemic having caused more consumers to online shop. We intend to revamp our existing product display at our e-shops and set up a flagship online shop at the e-shopping platforms operated by an Independent Third Party commerce operators, such as TMALL.com in the PRC, for the sale of our own-brand products.

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To revamp our product display at our e-shops and set up a flagship online shop, we plan to (i) create an ecommerce landing page for our existing e-shops and flagship online shop at which our products are displayed and to increase their conversion rates concurrently with the launching of our marketing campaigns from time to time, (ii) improve the web design of our product display at both e-shops and the flagship online shop in order to attract more visitors, provide them with more information about our own-brand products and (iii) conduct promotional and marketing activities via the flagship online shop.

To open a flagship online shop on a well-recognised e-commerce platform, we have to pay security deposit, annual technology fee and logistics setup fee to the online mall operator. We will also incur expenses in relation to e-shop application, design of user interface, order management system, warehousing, marketing and sales commission to the online mall operator.

We intend to utilise an aggregate sum of approximately RMB1.4 million (equivalent to approximately HK\$1.6 million) for the above strategies and operation of our flagship online shop, which will be funded by the net proceeds from the Global Offering, representing approximately 1.9% of the net proceeds from the Global Offering.

V. Further enhance our product design and development capabilities

During the Track Record Period, we placed great emphasis on our product design and development and our research and development costs amounted to approximately RMB1.5 million, RMB1.5 million, RMB1.7 million and RMB1.0 million, respectively. As at the Latest Practicable Date, our Group was the registered owner of 26 utility model patents, 15 design patents, 11 innovation patents, two community design patents, and one invention patent which are material to our business. In alignment with our enhanced production capacity upon full operation of our New Production Plant under our expansion plan, we intend to strengthen our research and development capabilities with a view to (i) improving our product design in terms of appearance, functions, features and quality; (ii) improving our production techniques to achieve better production efficiency and cost saving; and (iii) developing our own-brand products.

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(i) Acquisition of advanced design software and equipment

During the Track Record Period, our design and development team used basic 3D printers and 3D computer aided design software in designing product prototype based on our customers' specific requirements. To cope with more innovative and potentially more complicated designs, we intend to purchase advanced models of 3D printers and 3D design software, which will assist us to create more precise product prototypes at lower cost, higher speed and shorter product turnaround time and thus improve our overall design capabilities. As such, we plan to provide the additional engineers and product designers we intend to recruit with the equipment set forth in the table below with the estimated cost based on the quotations obtained by us from the relevant suppliers:

| <u>Additional design software and equipment</u> | <u>Number of units</u> | <u>Expected useful</u> | <u>Estimated cost</u> |
|---|------------------------|------------------------|-----------------------|
| | | <u>lives</u> | |
| | | <i>(Years)</i> | <i>(RMB' million)</i> |
| 3D printer | 3 | 5 | 4.1 |
| 3D design software | 4 | 3 | 0.1 |
| Computers | 4 | 3 | 0.1 |

We intend to utilise an aggregate sum of approximately RMB4.3 million (equivalent to approximately HK\$4.9 million) for the acquisition of advanced design software and equipment, which will be funded by the net proceeds from the Global Offering, representing approximately 5.7% of the net proceeds from the Global Offering.

(ii) Recruitment of expertise who possess extensive industry experience

We expect that (i) the number of orders to be placed by our customers would increase in alignment with our enhanced production capacity; and (ii) there will be orders for products of higher complexity and more functionality. Examples of such products of higher complexity and more functionality include but not limited to mops that use steam to clean floors and carpet, electric heated drying racks that help speed up the drying of clothing, and easily collapsible drying racks with the push of a button.

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As such, our Directors are of the view that it is imperative for us to recruit more talents in product engineering and product design. The table below sets forth the preferred qualifications, experience and salaries of the additional design and development staff to be recruited with the net proceeds from the Global Offering:

| <u>Position</u> | <u>Number</u> | <u>Specific qualification and/or requirements</u> | <u>Estimated average monthly salary</u> <i>(RMB'000)</i> |
|------------------|---------------|---|---|
| Engineer | 3 | <ul style="list-style-type: none"> • a university degree or diploma in mechanical or product engineering majors, and • at least three years working experience in automated equipment production management or household necessity product production | 8 |
| Product designer | 3 | <ul style="list-style-type: none"> • a university degree or diploma in product design majors, and • at least three years relevant working experience in household necessity product production or plastic product production | 8 |

We intend to utilise an aggregate sum of approximately RMB1.2 million (equivalent to approximately HK\$1.4 million) for the above recruitment of expertise who possess extensive industry experience, and all of which will be from the net proceeds from the Global Offering, representing approximately 1.6% of the net proceeds from the Global Offering.

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(iii) Provision of continuous trainings to our design and development staff

We intend to provide continuous trainings to our design and development staff to help improve their technical skills and support their professional development. Training includes (i) regular in-house training by senior designers in relation to product knowledge and characteristics of our products; (ii) attending external training courses in relation to the latest product development and use of technology; and (iii) allowing our designers to participate in external trade fairs in the PRC and abroad to gain better knowledge of market trend.

We intend to utilise an aggregate sum of approximately RMB1.8 million (equivalent to approximately HK\$2.1 million) for the above provision of continuous trainings to our design and development staff, and all of which will be from the net proceeds from the Global Offering, representing approximately 2.3% of the net proceeds from the Global Offering.

(iv) Co-operate with universities and research institutes in the PRC to conduct research initiatives

We plan to enter into cooperation agreements with universities and other external research institutes to jointly carry out research projects focusing on the use of materials, the development of more product features, functionalities and the strengthening of production technologies. For example, through our research initiatives with these universities and research institutes, we can explore the possibility of using more environmentally friendly raw materials in our production process and/or the manufacturing techniques that will render our production process more efficient. The findings and results of the research shall belong to our Group. To avoid any possible contention on the intellectual right of the research findings, our cooperation agreements with the universities or external research institutions will expressly delineate the rights and obligations of each party in the conduct of the research works and to confer the ownership of the findings or results of the researches to us. We shall also be entitled to apply for registration of the findings or the result of the research as our invention patent, model patent, design patent, as the case may be, in the PRC for the production of our new products or for improving our production techniques.

We intend to utilise an aggregate sum of approximately RMB0.7 million (equivalent to approximately HK\$0.8 million) for the above cooperation with universities and research institutes in the PRC, of which approximately RMB0.3 million (equivalent to approximately HK\$0.3 million), representing approximately 0.4% of the net proceeds from the Global Offering will be used for this purpose and the remaining sum of approximately RMB0.4 million (equivalent to approximately HK\$0.5 million) will be funded by our internal resources and/or bank loans.

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OUR BUSINESS MODEL

We are principally engaged in the design, development, manufacture and sale of a wide variety of laundry products, household cleaning tools and kitchen gadgets, which are common items of household necessity products, for well-established international brands on an OEM or ODM basis. We generate our revenue predominantly from overseas sales, and our sales are primarily denominated in USD while our cost of sales are primarily denominated in RMB. While most of our overseas sales take place in the PRC, some of which are concluded in Hong Kong and the United Kingdom. We source raw materials principally from our suppliers in the PRC and our production takes place in our Huzhou Production Plant in the PRC. We generally deliver our products to the designated warehouses or departure ports in the PRC and our customers arrange the overseas delivery to the countries such as the United States, the United Kingdom, Germany and Australia. Since December 2017, we have started designing, manufacturing and selling products under our own “*Jia Ji Bao*” (家吉寶) brand in the PRC.

The table below sets forth the breakdown of our revenue by mode of operation for the years and periods indicated:

| | For the year ended 31 December | | | | | | For the four months ended 30 April | | | |
|--------------|--------------------------------|-----------------------|--------------------|-----------------------|--------------------|-----------------------|------------------------------------|-----------------------|--------------------|-----------------------|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | Revenue RMB'000 | % of total revenue | Revenue RMB'000 | % of total revenue | Revenue RMB'000 | % of total revenue | Revenue RMB'000 | % of total revenue | Revenue RMB'000 | % of total revenue |
| | | | | | | | | | | |
| | | | | | | | (unaudited) | | | |
| OEM | 248,094 | 75.5 | 248,818 | 73.9 | 294,702 | 76.6 | 81,093 | 71.8 | 93,578 | 74.1 |
| ODM | 79,698 | 24.2 | 87,354 | 26.0 | 87,543 | 22.8 | 31,720 | 28.1 | 30,935 | 24.5 |
| OBM | 956 | 0.3 | 381 | 0.1 | 2,495 | 0.6 | 29 | 0.1 | 1,727 | 1.4 |
| Total | 328,748 | 100 | 336,553 | 100 | 384,740 | 100 | 112,842 | 100 | 126,240 | 100 |

OEM, ODM and OBM sale

Our OEM business involves the manufacture and sale of products based on customers' specifications and guidelines. We generally receive a product package from our customers, which includes target ex-factory unit price, technical drawings, specifications, the exact samples that they engage us for mass production and/or the choice of raw materials. Alternatively, our customers may also provide us with the name(s) of the designated supplier(s) from whom we would purchase and procure raw materials to be used for production. To differentiate us from other manufacturers, our product development team will provide inputs on the technical feasibility of mass production of the product in terms of the product's design, production method and materials to be used for production. We will evaluate costing on the indicative ex-factory unit price provided by the

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customers. If we decide to accept the customers' offer, we will inform the customers the kind of raw materials that we need to manufacture the products as well as the mark-up costs of those components and parts.

For products developed and manufactured on an ODM basis, our customers would generally provide us with their ideas and concepts of the products and we would transform their ideas and concepts into physical products with certain degree of involvement by our product design and development team on a case-by-case basis. Our ODM business also leverages on the capabilities of our product design and development team to create designs in line with the current market trend, enabling our customers to enjoy our "one-stop service" in terms of design, selection of raw materials, production, and quality control for their tailor-made products. Our ODM customers may also provide us with specific requirements for production, which may be related to the compliance with relevant safety and quality standards on materials, packaging and labelling.

For both OEM and ODM sales, our product development team produces the first prototype of a new product in our prototype workshop for our customers. We work with our customers to refine the prototype, adjust the specifications and negotiate on the ex-factory unit price, if necessary. Where requested by customers, our production team may manufacture sales samples for the customers. After obtaining approval from our customers on the designs and specifications, we will issue sales confirmation to record product details and terms of our sales. We will then proceed to mass production. Products are packed and labeled according to our customer's instruction.

Both our OEM and ODM customers may send personnel to our Huzhou Production Plant to inspect the products to ensure that the products comply with their requests and specifications. The finished products are then packaged and delivered to them.

During the Track Record Period, we also generated a small portion of our revenue from the sale of products under our own brand, namely "*Jia Ji Bao*" (家吉寶), to local customers in the PRC.

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Our business model relating to our sales can generally be summarised as follows:

| | | <i>ODM</i> | <i>OEM</i> | <i>OBM</i> |
|---|---|--|---|---|
| | | <i>Overseas sales and PRC</i> | | <i>PRC</i> |
| <p style="text-align: center;">Confirmation of order ~ 2 days</p> <p style="text-align: center;">↓</p> <p style="text-align: center;">Materials procurement ~ 15 days</p> <p style="text-align: center;">↓</p> <p style="text-align: center;">Mass production, packaging and delivery ~ 20 days</p> | Product design and development | <ul style="list-style-type: none"> Our customers provide the ideas and concepts of the products. Through communication and exchange of ideas with the customers, our product design and development team then generates our design, specifications and drawings. | <ul style="list-style-type: none"> Our customers provide us with their specific product design or specifications or technical drawings, and our product design and development team will evaluate the feasibility of mass production. If necessary, we then discuss with the customers for possible enhancements and improvement. | <ul style="list-style-type: none"> Our product design and development team designs our product with its experience and expertise, with reference to prevailing market trend. |
| | Orders origination and Pre-production | <ul style="list-style-type: none"> Once the design is confirmed, we will select a third party mould supplier from our internal approved list to cast the mould. Prototype is produced for testing and provide some mould modification if necessary. We will ship a batch of samples to our customers for their confirmation. Our customers generally place purchase order with us with the agreed ex-factory unit price, specifications, order volume and other payment and delivery terms. Our procurement team orders such materials from suppliers and deliver to our Huzhou Production Plant. | | <ul style="list-style-type: none"> Once the design is confirmed, we will select a third party mould supplier from our internal approved list to produce the mould of such products. Our QACA ensures raw materials would satisfy our specifications before they are accepted and further processed. |
| | Confirmation of sales order/product offering | <ul style="list-style-type: none"> Customers will confirm the sales order with us. | | <ul style="list-style-type: none"> After the samples or prototypes have passed all the relevant tests, we will determine the commercial launching time of the new products on e-shops. |
| | Manufacturing and Quality control | <ul style="list-style-type: none"> We purchase appropriate raw materials from our approved suppliers. Upon the receipt of purchase order, we will proceed to manufacture the products. | | <ul style="list-style-type: none"> We will keep a certain level of inventory before the orders of this product are made. |
| | Logistics | <ul style="list-style-type: none"> Products that pass inspection are then packed and delivered to our customers generally on FOB terms. | | <ul style="list-style-type: none"> We then package and arrange delivery of the products. |
| | Complaint handling | <ul style="list-style-type: none"> Our sales and marketing team handles complaints, product return or replacement. | | |

Based on the experience of our Directors, pre-production to product delivery generally takes 30 days to 60 days.

BUSINESS

Below are sample product images of products manufactured in the OBM business model under our brand name “*Jia Ji Bao*” (家吉寶):

Laundry products



Household cleaning tools



Kitchen gadgets



BUSINESS

OUR BUSINESS OPERATION

Our products are primarily manufactured and sold to international brand owners or their authorised agents on an OEM or ODM basis for resale as wholesaler or retailer in overseas markets. Since December 2017, we have started designing, manufacturing and our products under our own “*Jia Ji Bao*” (家吉寶) brand in the PRC, thereby commencing our OBM business, and our business operation would generally involve (i) product design and development, especially for our ODM and OBM products; (ii) orders origination; (iii) confirmation of sales orders or product offering; (iv) manufacturing; (v) quality control; (vi) logistics; and (vii) complaint handling.

Product design and development

Being a supplier of laundry products, household cleaning tools and kitchen gadgets on OEM or ODM basis, we need to impress our customers with our product mix and our large-scale production capacity to achieve economies of scale and our production efficiency. To our ODM customers, we also need to showcase our product design and supply chain management capabilities in order to secure purchase orders from them. Therefore, we place emphasis on market research, product development and enhancement of our production capacity, which together form an integral part of our business and operation. Our sales and marketing team is responsible for gathering information on the latest trend of household necessity products, evaluating industry trends and products of our competitors, understanding our target customers’ requirements and their preference; and our production team together with our product design and development team are responsible for formulating product development proposal and enhancing our production efficiency.

Orders origination

We generate our business primarily by word of mouth and participating in exhibitions. In these exhibitions, we promote both our new and existing products. We also pay regular visits to existing customers to collect feedback from them about our products, their preference and estimated purchased orders to be placed on us and receive orders from our recurring customers.

As an OEM or ODM supplier for well-established international brands in household necessity products, our customers generally visit our Huzhou Production Plant to ensure we have adequate capacity and to inspect our production and quality control processes and verify the relevant certificates and licences we obtained for our products. Some of our recurring customers may also conduct an updated on-site factory audit on a regular basis to ensure we are able to continuously comply with their requested production standards, quality control process and production specifications.

Confirmation of sales orders or product offering

Based on the specific requirements and specifications of individual customers, we select mould producing companies for mould production if we do not have the relevant moulds for production, and then provide samples and test reports to customers. Occasionally, we will be provided the moulds for production by our customers. Once the customers have confirmed the designs and specifications and are satisfied with our product samples, we will issue sales confirmation to our customers to record the type and quantity of the products and the payment terms. After the customers have agreed on the final samples and the terms of the purchase orders, we will proceed with procurement of raw materials and manufacture of the products.

Manufacturing

After receipt of purchase orders from our customers, our production team will analyse our then production capacity, work out the most cost-effective way in carrying out the production and finalise our internal procurement and production plan and schedule. Our existing ERP system provides information that helps us optimise our then available production capacity in production, keep track on the production process and document the process from transformation of raw materials to finished goods. In general, after the internal procurement and production plan and schedule are finalised, our procurement team will order the necessary materials from our list of approved suppliers.

Quality control

We place great emphasis on the quality of our products. Our products must meet the stringent requirements of our customers and comply with the applicable safety and certification standards. In this connection, we have implemented a series of quality control measures throughout the production process, from incoming materials to finished products. For further details, please refer to the paragraphs headed “Quality control and quality assurance” in this section.

Our QAQC team performs visual in-line inspection and check items such as surface of the products, notches, suture for laundry products, and the condition of the work in progress. If any defects are spotted, the work in progress will be sent back to the relevant station for reprocessing. Our QAQC team and individual customers’ on-site inspection personnel perform final checking on finished goods. In addition to visual inspection of the products, product labels, merchant cards, shipping marks on packaging are also checked.

BUSINESS

Logistics

For overseas sales that are mainly under ODM or OEM basis, the term of delivery is principally free on board (FOB), under which we are responsible for handling export clearance and domestic transportation. We will arrange for the delivery of products to the port of shipment designated by our overseas customers. The selling price of our products is inclusive of logistics expenses incurred in the PRC. Our overseas customers will generally be responsible for the shipment cost and import duties of the importing countries. For the sales of our own-brand products in the PRC via e-shops operated by Independent Third Party in the PRC, we generally deliver the products to customers by couriers and we bear the logistics cost. We utilise a RFID system to help us efficiently and effectively manage the delivery of our products. For further details, please refer to the paragraphs headed “Delivery and logistics” in this section.

Complaint handling

Our sales and marketing team is responsible for following up customers’ complaints on product quality, if any, and investigating the complaints. Once a customer’s complaint has been confirmed, we will arrange for refund or product replacement. Our sales and marketing team also maintains regular communications with our customers through physical visits and multiple channels to collect customers’ feedback on our products in order to have a better understanding of their business needs, to catch up on the latest market trends and to acquire first-hand market information. The market information and customer feedback collected by us will be shared with our product design and development team for product planning and improvement. During the Track Record Period, we had not encountered any product return or recall which had material impact on us. For details about our complaint handling, please refer to the paragraphs headed “After sale services and product return” in this section.

OUR PRODUCTS

Our household necessity products can be broadly categorised into (i) laundry products; (ii) household cleaning tools; and (iii) kitchen gadgets. As at the Latest Practicable Date, we offered over 1,800 types of products with various functions and features for both our OEM and ODM customers or under our own “*Jia Ji Bao*” (家吉寶) brand.




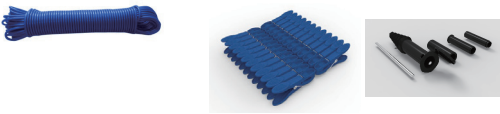

BUSINESS

The table below sets forth the breakdown of the revenue, gross profit and gross profit margin by product category for the years and periods indicated:




| | For the year ended 31 December | | | | For the four months ended 30 April | | | | |
|--------------------------|--------------------------------|---------------|----------------|---------------|------------------------------------|----------------|----------------|----------------|-------------|
| | 2018 | | 2019 | | 2020 | | 2021 | | |
| | Gross profit margin | Gross profit | Revenue | Gross profit | Revenue | Gross profit | Revenue | Gross profit | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | % |
| Laundry products | 159,029 | 45,062 | 165,008 | 47,790 | 176,963 | 52,734 | 69,075 | 78,471 | 28.4 |
| Household cleaning tools | 164,386 | 44,415 | 166,712 | 45,065 | 192,025 | 56,556 | 41,018 | 46,452 | 26.2 |
| Kitchen gadgets | 5,333 | 1,542 | 4,833 | 1,574 | 15,752 | 4,998 | 2,749 | 1,317 | 27.1 |
| Total | 328,748 | 91,019 | 336,553 | 94,429 | 384,740 | 114,288 | 112,842 | 126,240 | 27.6 |
| | | | | | | | (unaudited) | | |
| | | | | | | | | | |

BUSINESS

The table below sets forth the categories of our products:

| Category | Product | Product description | Approximate price range |
|--------------------------|---|---|-------------------------|
| Laundry products | Rotary drying racks | The rotary drying rack comes with several lines on each of its sides, and a ground socket for an easy, fast, and concrete installation. | (RMB) 17-338 |
| |  | | |
| | Foldable/upright drying racks | The foldable/upright drying rack does not require professional installation. It is practical for families without a balcony at home. | 12-299 |
| |  | | |
| | Wall-mounted drying racks | The design of extendable drying racks makes it easy to dry clothes, while occupying minimal space especially when not in use. | 56-183 |
| |  | | |
| | Others | Others include retractable clothesline, knobs, clips, etc.. | 3-320 |
| |  | | |
| Household cleaning tools | Floor cleaning tools | Tools that are used to clean the floor, such as mops. | 7-70 |
| |  | | |

BUSINESS

| Category | Product | Product description | Approximate price range (RMB) |
|-----------------|--|--|----------------------------------|
| | Glass cleaning tools  | Tools that are used to clean glass, such as window cleaners. | 9-114 |
| | Toilet cleaning tools  | Tools that are used to clean toilets, such as toilet bowl brushes. | 2-30 |
| Kitchen gadgets |  | Gadgets with innovative design of conventional cooking utensil. | 7-43 |

PRODUCT DESIGN AND DEVELOPMENT

Product design and development team

We place great emphasis on our product design and development by offering a diversified range of quality products. As at the Latest Practicable Date, our product design and development team consisted of 11 staff members with our product technicians having on average nine years of experience in design and development.

Our production design and development team is primarily responsible for enhancing the functions and the design of our existing products or developing new products on ODM and OBM basis. To protect the intellectual property rights of our product design and development, we have obtained patents in relation to some designs of our products. For details of our patents, please refer to the paragraphs headed “Intellectual property rights of our Group” in Appendix IV to this prospectus.

BUSINESS

Product design and development process

Our product design and development process can be generally divided into three stages: (i) market assessment and market feedback; (ii) product drawing and visual design; and (iii) manufacturing and technical feasibility evaluation.

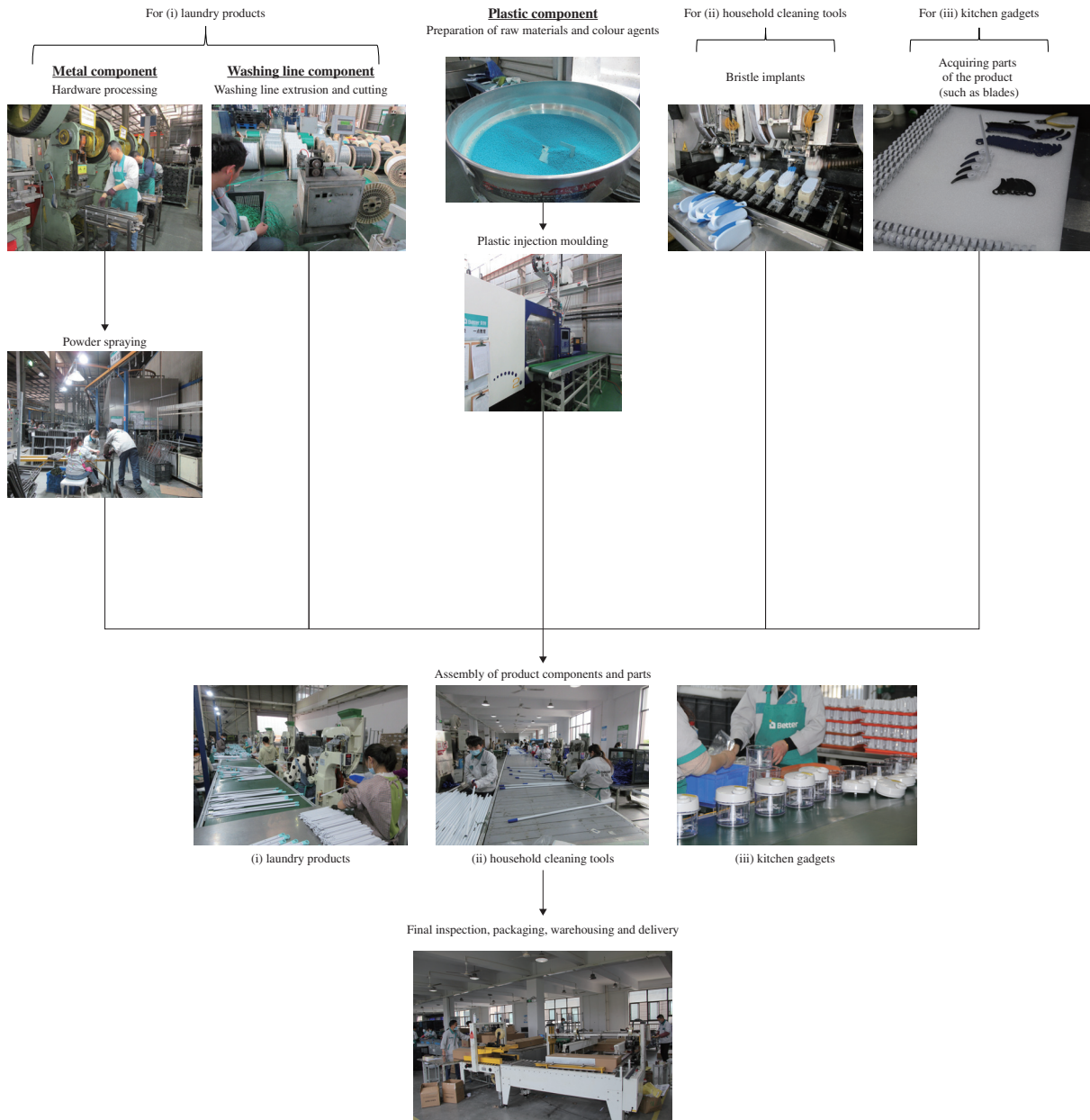
Subject to our capacity, resources level, complexity of design and customers' requirements, we will from time to time engage third-party design companies to work alongside our production team throughout the entire product design and development process. According to our terms of engagement with these third-party design companies, our product design and development team is responsible for incepting the concept of new products and devising a work plan; meanwhile, the third-party design company will work in accordance with the aforementioned work plan to create and modify designs for our products. Our Directors believe that this allows us to leverage the expertise and experience of these external design companies in the PRC local market to accommodate market needs.

OUR PRODUCTION

Most of the production processes of our products are undertaken by a combination of machinery and equipment and manual workers. Our production processes comply with the standards of ISO 9001, ISO 14001 and OHSAS 18001/ISO45001. As at the Latest Practicable Date, we had washing line extruding lines, plastic injection machines, brush filling machines and powder coating lines, being principal machinery and equipment for production of our products.

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The following flow chart shows the major steps generally involved in our production process of (i) laundry products, which are generally composed of plastic, metal and washing lines; (ii) household cleaning tools, which are generally made of plastic; and (iii) kitchen gadgets, which are generally made of plastic and other parts we acquired from external parties:



Plastic components

Preparation of raw materials and colour agents

Raw materials such as polypropylene resins undergo heating. Depending on the composite of the product type, different admixtures are blended with the formula to cope with the requirements of the products. Depending on the situation, different colour agents may be added.

Plastic injection moulding

Plastic injection moulding is our key manufacturing process for production of plastic components of our products. It requires the use of plastic injection machines, raw materials such as polypropylene resins, and a mould whereby polypropylene resins are fed into a heated barrel, melted, and then injected into the mould capacity, where it cools and solidifies into the shape of the mould.

Metal components

Hardware processing

The hardware would be cut into sizes based on the product requirements using cutting machines and be polished. With the help of punching machines, the hardware would be pressed and further processed into the shape of the mould. The surface of the hardware will be polished until it becomes smooth before it undergoes the powder spraying process. The semi-finished hardware parts are then cooled down and solidified to the desired shapes.

Powder spraying

The semi-finished hardware parts are placed on the assembly line and sprayed by the powder spraying machine. After the parts are completely dry, they would be inspected to ensure that the surface of the products is free of defects and that the film thickness meets the standard requirements.

Washing line extrusion and cutting

The washing lines of the laundry rotaries are extruded by washing line extruding machines and samples are taken for physical testing for quality control and assurance. The washing lines are then cut into certain length based on the products' specifications.

BUSINESS

Assembly of product components and parts

After the plastic components have been moulded into shape and decorated based on customers' requirements, it will be assembled with other parts in the assembly line.

In the production of our laundry products, the plastic components will be assembled with the hardware parts and the washing lines in the assembly line.

In the production of our household cleaning tools such as dustpans and brush sets, the bristles of the brush would be implanted into the plastic brush body manufactured from the plastic injection machine using the bristle planting machine.

In the production of our kitchen gadgets such as kitchen knives, components such as blades will be assembled with the plastic components manufactured from the plastic injection machine.

Final inspection, packaging, warehousing and delivery

Our QAQC team would conduct a final inspection on our finished products meet our quality control requirements. After that, we would package the finished products and arrange them to our warehouse for delivery as per customers' specific requests. In general, the typical lead time between our receiving a purchase order and delivery is approximately 30 days to 60 days.

PRODUCTION FACILITY

During the Track Record Period and as at the Latest Practicable Date, we owned and operated one production plant, namely, Huzhou Production Plant. We plan to set up the New Production Plant to complement the operation of our Huzhou Production Plant, by undertaking mainly the plastic injection moulding process in relation to the production of the plastic components of our products. The funding for setting up the New Production Plant will be partly from the net proceeds of the Global Offering and partly from our internal resources.





Our existing production facility

During the Track Record Period and as at the Latest Practicable Date, our Huzhou Production Plant was located at No. 378 Guangming Street, Fuxi Road, Deqing County, Huzhou City, Zhejiang Province, the PRC* (中國浙江省湖州市德清縣阜溪街道光明街378號), with a gross floor area of approximately 58,441 sq.m.. As advised by our PRC Legal Advisers, we obtained all the relevant licences and certificates required to operate our Huzhou Production Plant.





BUSINESS

Our production machinery and equipment

We purchase our production machinery and equipment predominantly in the PRC. We have a comprehensive repair and maintenance procedures for our production machinery and equipment, including regular inspection and cleaning of our machinery and equipment to ensure our production lines run properly. During the Track Record Period, we had not experienced any material or prolonged interruption to our production processes due to equipment or machinery failure. The table below sets forth information on our major production machinery and equipment as at 30 April 2021:

| Type of machinery and equipment | | Principal use | Quantity | Estimated useful lives | Approximate average remaining useful lives |
|---------------------------------|---|---|----------------|------------------------|--|
| | | | <i>(units)</i> | <i>(years)</i> | <i>(years)</i> |
| Plastic injection machines |  | Used for moulding melted polypropylene resin mixture in its mould cavity to manufacture the plastic parts of our products | 64 | 10 | 3.5 |
| Automated robotic arms |  | Used for picking up the finished products when they are cooled and ejected from the plastic injection machines | 41 | 10 | 5.3 |
| Conveying belt and system |  | Used for carrying the work-in-progress pieces to different production stations | 37 | 10 | 4.0 |
| Powder coating machines |  | Used for coating of metal with powder, which is either thermoplastic or thermoset polymer powder | 27 | 10 | 6.8 |

BUSINESS

| Type of machinery and equipment | | Principal use | Quantity | Estimated useful lives | Approximate average remaining useful lives |
|---------------------------------|---|---|----------------|------------------------|--|
| | | | <i>(units)</i> | <i>(years)</i> | <i>(years)</i> |
| Washing line extruding lines |  | Used to extrude washing lines of the laundry rotaries | 2 | 10 | 0.2 |
| Brush filling machines |  | Used for filling of brushes into plastic bases for our household cleaning tools | 17 | 10 | 5.5 |
| Plastic spraying machine |  | Used for spray painting on our products with a high level of concentration | 1 | 10 | 0 |
| Stamping press machines |  | Used to precisely shape or cut metal to specifications | 19 | 10 | 0.3 |

Plastic injection moulding process is our most crucial production process because the production process of most of our laundry products, household cleaning tools and kitchen gadgets generally involves this process for production of their plastic components. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, the products we manufactured and sold which did not involve the plastic injection moulding process were mainly auxiliary items such as washing lines, ailer covers and certain spare parts, and the revenue generated from such products only accounted for approximately 8.6%, 8.2%, 7.3% and 7.6% of our total revenue, respectively. As such, our Directors consider that the bottleneck in the manufacturing of our products is plastic injection moulding process as the capacity of such process largely determines the output of our products and it is impossible for us to progress further in our production unless we increase the capacity of this plastic injection moulding process. The production capacity of our plastic injection machines is therefore used to calculate our production capacity of our products during the Track Record Period.

BUSINESS

The following table sets forth our effective designed capacity, actual production volume and utilisation rate of our production facility during the Track Record Period:

| Product type | For the year ended 31 December | | | | | | | | | For the four months ended 30 April | | |
|--|--------------------------------|--------------------------|-------------|-----------------------------|--------------------------|-------------|-----------------------------|--------------------------|-------------|------------------------------------|--------------------------|-------------|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Converted | | Utilisation | Converted | | Utilisation | Converted | | Utilisation | Converted | | Utilisation |
| | Effective designed capacity | actual production volume | | Effective designed capacity | actual production volume | | Effective designed capacity | actual production volume | | Effective designed capacity | actual production volume | |
| (Note 1) | (Note 2) | (Note 3) | (Note 1) | (Note 2) | (Note 3) | (Note 1, 6) | (Note 2) | (Note 3) | (Note 1, 7) | (Note 2) | (Note 3) | |
| ('000 unit) | ('000 unit) | (%) | ('000 unit) | ('000 unit) | (%) | ('000 unit) | ('000 unit) | (%) | ('000 unit) | ('000 unit) | (%) | |
| Laundry products ^(Note 4) | 958 | 904 | 94.4 | 958 | 918 | 95.8 | 1,116 | 1,016 | 91.0 | 384 | 358 | 93.2 |
| Household cleaning tools ^(Note 5) | 4,701 | 4,657 | 99.1 | 5,622 | 5,275 | 93.8 | 5,786 | 5,498 | 95.0 | 2,275 | 2,121 | 93.2 |
| Kitchen gadgets | 263 | 173 | 65.8 | 263 | 166 | 63.1 | 455 | 448 | 98.5 | 50 | 43 | 86.0 |

Notes:

1. The effective designed capacity is determined on the following assumptions:
 - (i) As the manufacturing time of our products varies from model to model (ranging from approximately 14 to 770 seconds for laundry products, 50 to 360 seconds for household cleaning tools and 150 to 500 seconds for kitchen gadgets), for the purpose of providing a more meaningful illustration and comparison of the production capacity of our machinery and equipment from period to period, we have selected a common type of model of our laundry products (which takes 550 seconds to manufacture), household cleaning tools (which takes 130 seconds to manufacture) and kitchen gadgets (which takes 480 seconds to manufactures) as the standardised model in calculating our effective designed capacity based on the production of the standardised model and taking into account the difference in the manufacturing time for other models of our products.
 - (ii) Subject to notes 4 and 5, the effective designed capacity is calculated based on the maximum capacity of the machinery and equipment multiplied by 20 working hours per day multiplied by 350, 350, 337 and 111 days for the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, respectively, taking into account factors including the public holidays, the required repair and maintenance time and the temporary suspension due to the outbreak of COVID-19.
2. The converted actual production volume is calculated by converting the actual production volumes of different models of our products during the relevant period to a common type of model of our products as the standardised model and taking into account the difference in the manufacturing time of our products with reference to the manufacturing time of the standardised model, for the purpose of providing a more meaningful comparison. The actual production volume of different products for the relevant period was then converted in terms of the number of units of the standardised model.
3. Utilisation rate is derived by dividing the actual production volume by the effective designed capacity during the relevant year/period.

BUSINESS

4. We acquired two and four plastic injection machines for the production of laundry products in the fourth quarter of 2019 and 2020, respectively. The production capacity of such plastic injection machines acquired at the end of 2019 and 2020 have minimal contribution to the effective designed capacity of laundry products for the years ended 31 December 2019 and 2020, respectively. We disposed of four plastic injection machines in the fourth quarter of 2020. As at 31 December 2020, our maximum annual designed capacity of laundry products is approximately 1,058,000 units.
5. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, we acquired one, 11, nil and nil plastic injection machines, respectively. The effective designed capacity for each year has taken into account the time of commencement of commercial production of the above newly acquired plastic injection machines. As at 31 December 2020, our maximum annual designed capacity of household cleaning tools is approximately 6,978,000 units.
6. As our plastic injection machines are interchangeable for the production of different product types, in order to cope with the fact that our machinery and equipment usually assigned for the production of laundry products and kitchen gadgets were running close to its full utilisation, machines generally assigned for the production of household cleaning tools were temporarily used for the production of laundry products and kitchen gadgets for the year ended 31 December 2020. For the year ended 31 December 2020, (i) one plastic injection machines generally assigned for the production of household cleaning tools were temporarily used for the production of laundry products and (ii) four plastic injection machines generally assigned for the production of household cleaning tools were temporarily used for the production of kitchen gadgets.
7. For the four months ended 30 April 2021, (i) three plastic injection machines generally assigned for the production of kitchen gadgets were temporarily used for the production of laundry products and (ii) one plastic injection machines generally assigned for the production of kitchen gadgets were temporarily used for the production of household cleaning tools.

Utilisation rate of our machinery for production of our products

The utilisation rate of our machinery for production of household cleaning tools decreased from approximately 99.1% for the year ended 31 December 2018 to approximately 93.8% for the year ended 31 December 2019. Such decrease was mainly due to (i) the increase in the effective designed capacity from approximately 4.7 million units to approximately 5.6 million units as 11 plastic injection machines had been acquired in 2019.

The utilisation rate of our machinery for production of kitchen gadgets increased from approximately 63.1% for the year ended 31 December 2019 to approximately 98.5% for the year ended 31 December 2020. Such increase was in line with the overall increase in our production volume and sales of our kitchen gadgets. The utilisation rate of our machinery for production of kitchen gadgets decreased from 98.5% for the year ended 31 December 2020 to 86.0% for the four months ended 30 April 2021. Such decrease was in line with the overall decrease in sales of our kitchen gadgets.

BUSINESS

To further illustrate the utilisation rate of our production facility, the following table sets forth the utilisation rate of our plastic injection machines in terms of production time during the Track Record Period:

| | For the year ended 31 December | | | | | | | | | For the four months ended 30 April | | |
|--------------------------|------------------------------------|------------------------|------------------|------------------------------------|------------------------|------------------|------------------------------------|------------------------|------------------|------------------------------------|------------------------|------------------|
| | 2018 | | | 2019 | | | 2020 | | | 2021 | | |
| | Effective designed production time | Actual production time | Utilisation rate | Effective designed production time | Actual production time | Utilisation rate | Effective designed production time | Actual production time | Utilisation rate | Effective designed production time | Actual production time | Utilisation rate |
| | (Note 1) | | (Note 2) | (Note 1) | | (Note 2) | (Note 1) | | (Note 2) | (Note 1) | | (Note 2) |
| | ('000 hours) | ('000 hours) | (%) | ('000 hours) | ('000 hours) | (%) | ('000 hours) | ('000 hours) | (%) | ('000 hours) | ('000 hours) | (%) |
| Laundry product | 133 | 127 | 95.5 | 134 | 130 | 97.0 | 142 | 137 | 96.5 | 53 | 52 | 98.1 |
| Household cleaning tools | 170 | 169 | 99.4 | 199 | 191 | 96.0 | 222 | 216 | 97.3 | 82 | 80 | 97.6 |
| Kitchen gadgets | 35 | 24 | 68.6 | 35 | 23 | 65.7 | 54 | 53 | 98.1 | 7 | 6 | 85.7 |

Notes:

- The effective designed production time is calculated by 20 working hours per day multiplied by 350, 350, 337 and 111 days for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, respectively, taking into account factors including the public holidays and the required repair and maintenance time.
- Utilisation rate is derived by dividing the actual production time by the effective designed production time during the relevant year.

OUR SALES AND CUSTOMERS

Over the years of operation, we have built up a wide international customer base. Our customers are mainly owners or authorised agents of well-established international brands which resell our products in overseas countries such as the United States, the United Kingdom, Germany, Australia and other overseas countries as wholesaler, such as Bradshaw Group or as retailer.

Most of our customers during the Track Record Period were located in the United States, the United Kingdom, Germany and Australia, with a few customers located in other countries including Austria, Belgium, France, etc. Our sales and marketing activities are primarily handled by our sales and marketing team. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, excluding sales made to our customers on e-shops, we had a total of approximately 41, 47, 48 and 38 customers, respectively. During the Track Record Period, revenue generated from these customers amounted to approximately RMB327.8 million, RMB336.2 million, RMB383.4 million and RMB126.2 million, respectively. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, the number of our recurring wholesale and retail customers was 31, 33, 39 and 37, respectively, contributing approximately RMB325.3 million, RMB333.0 million, RMB382.1 million and RMB125.6 million, respectively, to our revenue over the same year or period.

BUSINESS

The following table sets forth the breakdown of our revenue by the destination of delivery of our products for the years and periods indicated:

| | For the year ended 31 December | | | | | | For the four months ended 30 April | | | |
|--------------------------|--------------------------------|--------------------|----------------|--------------------|----------------|--------------------|------------------------------------|--------------------|----------------|--------------------|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | RMB'000 | % of total revenue | RMB'000 | % of total revenue | RMB'000 | % of total revenue | RMB'000 | % of total revenue | RMB'000 | % of total revenue |
| | (unaudited) | | | | | | | | | |
| United States | 147,544 | 44.9 | 149,571 | 44.4 | 178,109 | 46.3 | 35,572 | 31.5 | 33,984 | 26.9 |
| United Kingdom | 62,070 | 18.9 | 60,538 | 18.0 | 61,593 | 16.0 | 26,593 | 23.6 | 26,253 | 20.8 |
| Germany | 52,690 | 16.0 | 62,740 | 18.6 | 61,764 | 16.1 | 26,513 | 23.5 | 35,202 | 27.9 |
| Australia | 40,156 | 12.2 | 38,075 | 11.3 | 40,542 | 10.5 | 11,065 | 9.8 | 9,116 | 7.2 |
| Others ^(Note) | 26,288 | 8.0 | 25,629 | 7.7 | 42,732 | 11.1 | 13,099 | 11.6 | 21,685 | 17.2 |
| Total | 328,748 | 100 | 336,553 | 100 | 384,740 | 100 | 112,842 | 100 | 126,240 | 100 |

Note: Others include Austria, Belgium, France, New Zealand, the Netherlands, Canada, etc..

For the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, approximately 92.0%, 92.3%, 88.9% and 82.8%, respectively, of our revenue was attributable to sales delivered to the United States, the United Kingdom, Germany and Australia, and many of them were recurring customers during the Track Record Period.

Our OEM or ODM customers generally resell our products as wholesaler or retailer in overseas countries. Our Group also sells our own “Jia Ji Bao” (家吉寶) branded products in the local markets in the PRC through e-shops, such as taobao.com (淘寶網). The following table sets forth the breakdown of our revenue by customer type in terms of the sales channel of our products and the revenue generated from each customer type as a percentage of our revenue during the years and periods indicated:

| | For the year ended 31 December | | | | | | For the four months ended 30 April | | | |
|---------------------------------|--------------------------------|--------------------|-----------------|--------------------|-----------------|--------------------|------------------------------------|--------------------|-----------------|--------------------|
| | 2018 | | 2019 | | 2020 | | 2020 | | 2021 | |
| | Revenue RMB'000 | % of total revenue | Revenue RMB'000 | % of total revenue | Revenue RMB'000 | % of total revenue | Revenue RMB'000 | % of total revenue | Revenue RMB'000 | % of total revenue |
| | (unaudited) | | | | | | | | | |
| Wholesalers ^(Note 1) | 258,231 | 78.5 | 268,639 | 79.8 | 310,851 | 80.8 | 84,041 | 74.5 | 91,354 | 72.3 |
| Retailers ^(Note 2) | 69,561 | 21.2 | 67,606 | 20.1 | 72,511 | 18.8 | 28,261 | 25.0 | 34,811 | 27.6 |
| Others ^(Note 3) | 956 | 0.3 | 308 | 0.1 | 1,378 | 0.4 | 540 | 0.5 | 75 | 0.1 |
| Total | 328,748 | 100 | 336,553 | 100 | 384,740 | 100 | 112,842 | 100 | 126,240 | 100 |

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Notes:

1. The wholesalers include companies mainly engaged in the on-sale of our products to other business entities.
2. The retailers are companies mainly engaged in the sale of our products to consumers through chains of multinational supermarkets, department stores and household accessory stores.
3. Others mainly represent sales through e-shops.

The following table sets out the number and movement of each type of our customers during the Track Record Period:

| | Wholesalers | Retailers | Total |
|---|-------------|-----------|-----------|
| As at 1 January 2018 | 18 | 19 | 37 |
| Addition during the year | 3 | 7 | 10 |
| Reduction during the year ^(Note 1) | (3) | (3) | (6) |
| As at 31 December 2018 | <u>18</u> | <u>23</u> | <u>41</u> |
| As at 1 January 2019 | 18 | 23 | 41 |
| Addition during the year | 5 | 9 | 14 |
| Reduction during the year ^(Note 1) | (3) | (5) | (8) |
| As at 31 December 2019 | <u>20</u> | <u>27</u> | <u>47</u> |
| As at 1 January 2020 | 20 | 27 | 47 |
| Addition during the year | 5 | 4 | 9 |
| Reduction during the year ^(Note 1) | (4) | (4) | (8) |
| As at 31 December 2020 | <u>21</u> | <u>27</u> | <u>48</u> |
| As at 1 January 2021 | 21 | 27 | 48 |
| Addition during the period | 1 | — | 1 |
| Reduction during the period ^(Note 1) | (7) | (4) | (11) |
| As at 30 April 2021 ^(Note 2) | <u>15</u> | <u>23</u> | <u>38</u> |

Note:

1. The reductions in number of customers during the Track Record Period were related to customers which had insignificant sale amounts with the Group and such orders were placed at ad hoc basis.
2. After 30 April 2021 and up to the Latest Practicable Date, eight customers out of such 11 customers which had not conducted business with us for the four months ended 30 April 2021 has placed purchase orders with our Group.

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Our five largest customers during the Track Record Period

During the Track Record Period, our Group did not experience any major disruption in our business and operations caused by any material delays or default of payments by our customers. Our Directors further confirm that we did not have any legal or arbitration proceedings or pending or threatened legal or arbitration proceedings with any of our major customers or any material sales return or cancellation from our major customers, which would cause any material adverse effect on our business and operations during the Track Record Period.

As at 31 December 2020, the length of our business relationship with our five largest customers ranged from approximately seven to ten years. For the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, the revenue generated from our five largest customers in aggregate accounted for approximately 77.9%, 76.9%, 80.5% and 72.9% respectively, of our total revenue for the corresponding years/period. The following table sets out the background information about our five largest customers for the years and periods specified:

For the year ended 31 December 2018

| Rank | Customer | Principal business activities | Products sold to customers | The year our customer started to do business with us | Revenue | Approximate percentage to our revenue | Credit period and payment method |
|----------------|----------------|---|---|--|---------|---------------------------------------|----------------------------------|
| <i>RMB'000</i> | | | | | | | |
| 1 | Bradshaw Group | A US headquartered private company and its group companies that engage in the sales of cleaning accessories and kitchen tools with products selling in over 45,000 retail outlets across the US and Canada. | Laundry products and household cleaning tools | 2010 | 138,718 | 42.2% | 60 days, telegraphic transfer |

BUSINESS

| Rank | Customer | Principal business activities | Products sold to customers | The year our customer started to do business with us | Revenue | Approximate percentage to our revenue | Credit period and payment method |
|----------------|------------|--|--|--|---------|---------------------------------------|----------------------------------|
| <i>RMB'000</i> | | | | | | | |
| 2 | Customer A | A Germany headquartered company listed on the Frankfurt Stock Exchange and its group companies engage in the production and distribution of kitchen and household products to more than 80 countries with revenue of approximately EUR258.7 million for the year ended 31 December 2020 and a market capitalisation of approximately EUR355.5 million as at the Latest Practicable Date. | Laundry products, household cleaning tools and kitchen gadgets | 2010 | 43,069 | 13.1% | 60 days, telegraphic transfer |
| 3 | Customer B | An Australia private company that engages in the sales of clotheslines, wheelbarrows and laundry products nationally and internationally with a paid-up capital of approximately AUD100. | Laundry products | 2011 | 40,222 | 12.2% | 30 days, telegraphic transfer |
| 4 | Customer C | A UK headquartered company listed on the London Stock Exchange and its group companies that engage in the sales of home improvement products, with over 1,300 stores in 10 European countries with revenue of approximately GBP12.3 billion for the year ended 31 January 2021 and a market capitalisation of approximately GBP7.1 billion as at the Latest Practicable Date. | Laundry products and household cleaning tools | 2011 | 18,158 | 5.5% | 100 days, telegraphic transfer |

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| Rank | Customer | Principal business activities | Products sold to customers | The year our customer started to do business with us | Revenue | Approximate percentage to our revenue | Credit period and payment method |
|--------------|---------------------------------------|--|----------------------------|--|----------------|---------------------------------------|--|
| | | | | | <i>RMB'000</i> | | |
| 5 | Casa Si Marketing — und VertriebsgmbH | An Austria headquartered private company with its group company that mainly engages in the sales of laundry airer, ironing boards and stepstools with a registered capital of approximately EUR36,500. | Laundry products | 2013 | 16,081 | 4.9% | Upon delivery, telegraphic transfer at sight |
| Total | | | | | 256,248 | 77.9% | |

For the year ended 31 December 2019

| Rank | Customer | Principal business activities | Products sold to our customers | The year our customer started to do business with us | Revenue | Approximate percentage to our revenue | Credit period and payment method |
|------|----------------|---|---|--|----------------|---------------------------------------|----------------------------------|
| | | | | | <i>RMB'000</i> | | |
| 1 | Bradshaw Group | A US headquartered private company and its group companies that engage in the sales of cleaning accessories and kitchen tools with products selling in over 45,000 retail outlets across the US and Canada. | Laundry products and household cleaning tools | 2010 | 139,224 | 41.4% | 60 days, telegraphic transfer |

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| Rank | Customer | Principal business activities | Products sold to our customers | The year our customer started to do business with us | Revenue | Approximate percentage to our revenue | Credit period and payment method |
|--------------|---------------------------------------|---|--|--|----------------|---------------------------------------|--|
| | | | | | <i>RMB'000</i> | | |
| 2 | Customer A | A Germany headquartered company listed on the Frankfurt Stock Exchange and its group companies that engage in the production and distribution of kitchen and household products to more than 80 countries with revenue of approximately EUR258.7 million for the year ended 31 December 2020 and a market capitalisation of approximately EUR355.5 million as at the Latest Practicable Date. | Laundry products, household cleaning tools and kitchen gadgets | 2010 | 55,388 | 16.5% | 60 days, telegraphic transfer |
| 3 | Customer B | An Australia private company that engages in the sales of clotheslines, wheelbarrows and laundry products nationally and internationally with a paid-up capital of approximately AUD100. | Laundry products | 2011 | 36,143 | 10.7% | 30 days, telegraphic transfer |
| 4 | Casa Si Marketing — und VertriebsgmbH | An Austria headquartered private company with its group company that mainly engages in the sales of laundry airer, ironing boards and stepstools with a registered capital of approximately EUR36,500. | Laundry products | 2013 | 14,970 | 4.4% | Upon delivery, telegraphic transfer at sight |
| 5 | Addis Housewares Co. Ltd. | A UK private company that engages in the sales of houseware products with a registered capital of approximately GBP500,000. | Laundry products, household cleaning tools and kitchen gadgets | 2011 | 13,178 | 3.9% | 60 days, telegraphic transfer |
| Total | | | | | 258,903 | 76.9% | |

BUSINESS

For the year ended 31 December 2020

| Rank | Customer | Principal business activities | Products sold to our customers | The year our customer started to do business with us | Revenue | Approximate percentage to our revenue | Credit period and payment method |
|------|---------------------------------------|---|--|--|----------------|---------------------------------------|--|
| | | | | | <i>RMB'000</i> | | |
| 1 | Bradshaw Group | A US headquartered private company and its group companies that engage in the sales of cleaning accessories and kitchen tools with products selling in over 45,000 retail outlets across the US and Canada. | Laundry products and household cleaning tools | 2010 | 160,712 | 41.8% | 75 days, telegraphic transfer |
| 2 | Customer A | A Germany headquartered company listed on the Frankfurt Stock Exchange and its group company that engage in the production and distribution of kitchen and household products to more than 80 countries with revenue of approximately EUR258.7 million for the year ended 31 December 2020 and a market capitalisation of approximately EUR355.5 million as at the Latest Practicable Date. | Laundry products, household cleaning tools and kitchen gadgets | 2010 | 69,101 | 18.0% | 60 days, telegraphic transfer |
| 3 | Customer B | An Australia private company that engages in the sales of clotheslines, wheelbarrows and laundry products nationally and internationally with a paid-up capital of approximately AUD100. | Laundry products | 2011 | 41,690 | 10.8% | 90 days, telegraphic transfer |
| 4 | Casa Si Marketing — und VertriebsgmbH | An Austria headquartered private company and its group company that mainly engage in the sales of laundry airer, ironing boards and stepstools with a registered capital of approximately EUR36,500. | Laundry products | 2013 | 20,443 | 5.3% | Upon delivery, telegraphic transfer at sight |

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| Rank | Customer | Principal business activities | Products sold to our customers | The year our customer started to do business with us | Revenue | Approximate percentage to our revenue | Credit period and payment method |
|--------------|------------|---|---|--|----------------|---------------------------------------|----------------------------------|
| | | | | | <i>RMB'000</i> | | |
| 5 | Customer C | A UK headquartered company listed on the London Stock Exchange and its group companies that engage in the sales of home improvement products, with over 1,300 stores in 10 European countries with revenue of approximately GBP12.3 billion for the year ended 31 January 2021 and a market capitalisation of approximately GBP7.1 billion as at the Latest Practicable Date. | Laundry products and household cleaning tools | 2011 | 17,608 | 4.6% | 100 days, telegraphic transfer |
| Total | | | | | 309,554 | 80.5% | |

For the four months ended 30 April 2021

| Rank | Customer | Principal business activities | Products sold to our customers | The year our customer started to do business with us | Revenue | Approximate percentage to our revenue | Credit period and payment method |
|------|----------------|---|---|--|-------------------------|---------------------------------------|----------------------------------|
| | | | | | <i>RMB'000</i> | | |
| 1 | Bradshaw Group | A US headquartered private company and its group companies that engage in the sales of cleaning accessories and kitchen tools with products selling in over 45,000 retail outlets across the US and Canada. | Laundry products and household cleaning tools | 2010 | 32,808 <i>(Note)</i> | 26.0% | 75 days, telegraphic transfer |

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| Rank | Customer | Principal business activities | Products sold to our customers | The year our customer started to do business with us | Revenue | Approximate percentage to our revenue | Credit period and payment method |
|------|---------------------------------------|---|--|--|----------------|---------------------------------------|--|
| | | | | | <i>RMB'000</i> | | |
| 2 | Customer A | A Germany headquartered company listed on the Frankfurt Stock Exchange and its group companies that engage in the production and distribution of kitchen and household products to more than 80 countries with revenue of approximately EUR258.7 million for the year ended 31 December 2020 and a market capitalisation of approximately EUR355.5 million as at the Latest Practicable Date. | Laundry products, household cleaning tools and kitchen gadgets | 2010 | 25,447 | 20.2% | 60 days, telegraphic transfer |
| 3 | Casa Si Marketing — und VertriebsgmbH | An Austria headquartered private company with its group company that mainly engages in the sales of laundry airer, ironing boards and stepstools with a registered capital of approximately EUR36,500. | Laundry products | 2013 | 17,192 | 13.6% | Upon delivery, telegraphic transfer at sight |
| 4 | Customer B | An Australia private company that engages in the sales of clotheslines, wheelbarrows and laundry products nationally and internationally with a paid-up capital of approximately AUD100. | Laundry products | 2011 | 8,737 | 6.9% | 60 days, telegraphic transfer |

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| Rank | Customer | Principal business activities | Products sold to our customers | The year our customer started to do business with us | Revenue | Approximate percentage to our revenue | Credit period and payment method |
|------|--------------|---|---|--|----------------|---------------------------------------|----------------------------------|
| | | | | | <i>RMB'000</i> | | |
| 5 | Customer C | A UK headquartered company listed on the London Stock Exchange and its group companies that engage in the sales of home improvement products, with over 1,300 stores in 10 European countries with revenue of approximately GBP12.3 billion for the year ended 31 January 2021 and a market capitalisation of approximately GBP7.1 billion as at the Latest Practicable Date. | Laundry products and household cleaning tools | 2011 | 7,877 | 6.2% | 100 days, telegraphic transfer |
| | Total | | | | 92,061 | 72.9% | |

Note: For the four months ended 30 April 2021, the sales to Bradshaw Group amounted to approximately RMB32.8 million. The annualised sales to Bradshaw Group for the year ending 31 December 2021 based on a simple proportion, would amount to approximately RMB99.0 million, as compared to approximately RMB160.7 million for the year ended 31 December 2020. The decrease in this calculated annualised sales for 2021 is mainly due to the timing factor that the proportion of sales to Bradshaw Group during a year is generally higher in the second half of a year. From 1 January 2021 to 12 August 2021, we had already received sales orders from Bradshaw Group of approximately RMB71.2 million to be delivered after the Track Record Period, of which approximately RMB48.8 million had been completed and delivered for the three months ended 31 July 2021.

None of our Directors, their respective close associates or any Shareholder (who, to the best knowledge of our Directors, owned more than 5% of the issued share capital of the Company as at the Latest Practicable Date) had any interest in any of our five largest customers during the Track Record Period. All of our five largest customers during the Track Record Period are Independent Third Parties.

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Major contract terms with our customers

During the Track Record Period and up to the Latest Practicable Date, we entered into framework agreements with some of our customers for setting out the general terms and conditions for the transactions between the customers and us. Our customers will place purchase orders with us for each purchase specifying the price, quantity, product type and delivery date etc. The framework agreements we enter into with our major customers are on a non-exclusive basis. The following table summarises the major terms of these framework agreements.

| | |
|-----------------------------|--|
| Term of agreement: | In general, the length of our framework agreements ranges from one year to three years. Some of our framework agreements do not set out any term, but are terminable by notice |
| Credit term: | Generally, ranging from 30 to 60 days after our issue of monthly statement |
| Termination: | Generally, either party may terminate the agreement with the other party by written notice |
| Penalty for non-compliance: | In the event that there are non-compliance issues in respect of our production process or our products, we have to indemnify the customers against all or any losses or damages whatever suffered or incurred by the customers |
| Sales incentive: | Some framework agreements provided that in the event the purchase made by the customer has exceeded a certain specified amount, the customer will be entitled to a sales rebate or discount. Our customers are offered, at our discretion, sales rebates at varying rates, generally ranging from 1% to 8% of the price of the products, which are paid in the form of offsetting the amount against the purchase price of a subsequent purchase of the same customers. For the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021, our Group had given sales rebate amounting to approximately RMB3.7 million, RMB2.9 million, RMB3.9 million and RMB0.5 million to our customers, respectively. |

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Compliance with customer standards and requirements

Our management and sales and marketing team also communicates with our major customers regularly to ensure our products have met their expectations. Our customers require us to ensure consistent product quality, stable supply and timely delivery of our Group's products. Some of our customers also conduct on-site factory audits on our Huzhou Production Plant to ensure that our Group is able to comply with their required production standards, quality control process and production specifications. Our Directors confirmed that during the Track Record Period, our Group had complied with our customers' requirements in relation to their review and assessment of our performance and we had not received any complaints from our major customers which would materially and adversely affect our relationship with the customers.

Credit policy and payment terms

Our overseas customers usually settle payments by telegraphic transfer and most of our customers settle their payment by USD.

The credit period granted to our customers generally ranges from 0 to 100 days, depending on individual customers' scale of operation and reputation, payment history and their length of business relationship with us.

Our average trade receivables turnover days were 67 days, 70 days, 67 days and 76 days, respectively, for the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021. It is our policy to review overdue balances and our receivable balances on an ongoing basis and our management team will assess and determine whether or not provision for impairment of trade receivables should be made. As at 31 December 2018, 2019 and 2020 and 30 April 2021, the allowance for impairment of trade receivables amounted to approximately RMB0.3 million, RMB0.4 million, RMB0.3 million and RMB0.2 million, respectively. Subsequent to the Track Record Period and up to the Latest Practicable Date, we had not experienced any material difficulty in collecting receivables from our major customers when they fell due.

Our finance team monitors overdue payments closely and regularly prepares an ageing report showing customers' overdue amounts in the specific month. To facilitate timely collection of trade receivables, our Group may also put a customer's order on hold if any of the following situations happens: (i) the customer's credit line exceeds the credit limit; (ii) the customer's payments become overdue; (iii) the customer faces financial hardships or operational setback; or (iv) the business relationship with the customer is terminated. When there are overdue payments, we will take follow-up actions to collect the overdue trade receivables, such as communication with the relevant department of the customer responsible for processing payments.

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During the Track Record Period, our Group did not experience any material difficulty in collecting payments which caused a significant adverse impact on our business operation.

CUSTOMER CONCENTRATION

For the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, our Group's sales to our five largest customers accounted for approximately 77.9%, 76.9%, 80.5% and 72.9% of our total revenue, respectively. In the corresponding years and period, our sales to Bradshaw Group, our largest customer, accounted for approximately 42.2%, 41.4%, 41.8% and 26.0% of our total revenue, respectively.

Reasons for our customer concentration

Our Directors consider that our customer concentration during the Track Record Period was mainly contributed by a combination of the following key factors:

Our Group is able to maintain a stable business relationship with our major customers — As at the Latest Practicable Date, our Group maintained seven to ten years of business relationship with our five largest customers which we provide with quality products and value-added services, details of which are set out under paragraphs headed “Our Business Model — OEM, ODM and OBM sale” in this section. During the Track Record Period, we did not have any material dispute regarding our product quality with our five largest customers.

It is our strategy to serve brand owners or authorised agents of well-established international brands — Based on our Directors' industry experience and regular communications with our major customers, our Directors believe that we can generate stable revenue from well-established international brands as their OEM or ODM supplier. On the other hand, as these customers are used to placing purchase orders of larger quantities, we can project our production schedule for processing bulk purchase orders, achieve economies of scales and negotiate for better terms in our bulk purchase of raw materials for production and better utilise our production capacity. Thus, it is beneficial for us to cater for a few major customers which are the owners or authorised agents of well-established international brands.

Our existing production capacity has almost been fully utilised for production of products for our five largest customers whereby we do not have spare capacity to manufacture products for other sizeable and well-established international brands — Most of our major customers' purchase orders are of large amount. As such, their purchase orders had taken up a significant portion of our production capacity, resulting in a concentration of revenue generated from them during the Track Record Period. As a result, we did not have spare capacity to manufacture products for other sizeable and well-established international brands during the Track Record Period.

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Background of our five largest customers and our relationship with our five largest customers

Our five largest customers during the Track Record Period mainly comprised brand owners or authorised agents of well-established international brands which resell our products as wholesalers or retailers in overseas countries.

Our largest customer, the Bradshaw Group, is a group of companies headquartered in the United States, which is mainly engaged in the sale of cleaning accessories and kitchen tools in the United States and Canada. According to the CIC Report, it is a leading player in the household cleaning tools market in the United States, accounting for approximately 2.5% of the market share in 2020. We started to do business with the Bradshaw Group in 2010. During the Track Record Period, the revenue generated from our sales to the Bradshaw Group increased stably.

The Bradshaw Group confirmed to us in writing that, among others:

- (i) we are one of its major suppliers of household cleaning tools such as mops and brushes;
- (ii) it is satisfied with our services and products in all respects and that we will continue to provide superior capabilities as compared to its other suppliers;
- (iii) under its supplier selection and assessment policy, the Bradshaw Group has to carry out various procedures to assess the ability of a new supplier, and such procedures will usually take a relatively long time to complete and thus, it is unlikely that the Bradshaw Group would easily replace us with other OEM or ODM supplier; and
- (iv) it values the long-term relationship with our Group.

For the background of our other five largest customers during the Track Record Period, the year we started to do business with each of them, the amount of revenue generated from the sales of our products to each of them and the percentage of the revenue against our Group's total revenue during the relevant period, which indicates the level of our reliance with each of the five largest customers, please refer to the paragraph headed "Our sales and customers — Our five largest customers during the Track Record Period" in this section.

The framework agreements we entered into with our major customers

We were a non-exclusive OEM or ODM supplier of our five largest customers during the Track Record Period. We entered into a framework agreement with each of Bradshaw Group, Customer A and Customer C for setting out the general terms and conditions for the transactions between the relevant customer and us. Apart from the framework agreements, these customers will

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also place purchase orders with us for each purchase specifying the price, quantity, product type and delivery date etc. Those major customers which had not entered into any framework agreement with us will place purchase orders with us for each purchase separately. Our Directors confirmed that we had not breached any terms of the framework agreement or purchase orders which would have any material adverse impact on our relationship with any of our five largest customers or breached any terms which would result in the termination of any framework agreement or purchase orders between us and our five largest customers during the Track Record Period. The following table sets forth the term of these framework agreements:

| <u>Customer</u> | <u>The year our customer started to do business with us</u> | <u>Term of framework agreements</u> |
|-----------------|---|-------------------------------------|
| Bradshaw Group | 2010 | One year |
| Customer A | 2010 | No fixed term |
| Customer C | 2011 | No fixed term |

As confirmed by our Directors, each of Bradshaw Group, Customer A and Customer C has indicated its intention to continue its business relationship with us. For further details in respect of the general terms and conditions of these framework agreements, please refer to the paragraphs headed “Our sales and customers — Major contract terms with our customers” in this section.

Likelihood of termination of our business relationship with our five largest customers

Our Directors consider that even though we are not an exclusive supplier of our five largest customers, the likelihood that our five largest customers will terminate their business relationship with us is rather low due to the following factors:

(i) We are a valued business partner to our major customers

Our Group maintained a stable business relationship with our five largest customers and up to the Latest Practicable Date, our business relationship with them ranged from approximately seven to ten years. In particular, we maintained a close business relationship with Bradshaw Group, our largest customer since 2010. As such, our management team has already accumulated extensive knowledge in the philosophy, quality standard, requirements and procedures of each of our five largest customers in terms of its product design and development, manufacturing process and quality control. For instance, we may provide value-added services to them in terms of the feasibility of mass production of their newly designed products, costing exercise and raw material selection, etc. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material product returns from our five largest customers nor did we have any material dispute with any of them. Our Directors confirmed that there was no early termination or

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threatened termination, rescission or material breach of the terms of any framework agreements we entered into with our major customers or any purchase orders placed by our five largest customers on us during the Track Record Period and up to the Latest Practicable Date.

In light of the above, our Directors believe that we are a valued business partner to our five largest customers during the Track Record Period and that our relationship with them is unlikely to materially and adversely change or terminate. For further details about our five largest customers, please refer to the paragraphs headed “Business — Our sales and customers — Our five largest customers during the Track Record Period” in this prospectus.

(ii) Our major customers are leading players in their respective markets which would prefer not to run the risk of changing their OEM or ODM suppliers

According to the CIC Report, some of our major customers are the leading players in the drying rack market and household cleaning tool market in their countries. As leading players, they have built up not only brand recognition in the market, but also solid sales channels, stable customer base and good reputation by having stringent product quality of their branded products. Therefore, they generally prefer maintaining long-term cooperation relationship with their OEM or ODM suppliers with proven track record in order to avoid the risks of deficiency in quality control or delay in delivery of products etc. resulted from changing OEM or ODM suppliers. Thus, our Directors believe that they have no reasons to change suppliers with whom they have cooperated for many years.

(iii) It is time consuming for our five largest customers to choose other OEM or ODM suppliers in place of our Group

Notwithstanding our five largest customers’ relatively strong bargaining power to source products from suppliers other than our Group, our Directors take the view that it may also be time consuming for them to substitute our Group. Though in the PRC, there are approximately 600 drying rack manufacturers and over 8,000 cleaning tool manufacturers, we are one of the approved suppliers to our five largest customers.

According to the CIC Report, the process of identifying and approving a new OEM or ODM supplier by well-established international brand owners or their authorised agents is generally time-consuming and involves many selection procedures and criteria. Our Directors believe that we have met the criteria of our five largest customers and that we can continue to pass the regular assessments of our major customers on our production capacity and technical level in the future.

View of our Directors

Taking into account the above factors and observations and the fact that our major customers are leading players in their respective markets which would prefer not to run the risk of changing their suppliers, our Directors believe that there is no incentives for our five largest customers to find other OEM or ODM suppliers to replace us in the foreseeable future barring any unforeseen circumstances (such as substantial product quality issues), and above all, we have garnered our five largest customers' confidence on our products. By engaging us as their OEM or ODM supplier, our customers can focus on the product design and development and marketing of their new products.

Notwithstanding the above, we will seize growth opportunities and further diversify our sales channel and customer base by implementing the strategies set out in "Our business strategies" in this section. Accordingly, our Directors believe that we do not have any undue *de facto* reliance on any of our five largest customers.

Our customer concentration would not affect our business prospects and sustainability

Our Directors believe that our customer concentration would not affect our business prospects and sustainability and we are able to effectively mitigate our exposure to any material adverse change on the relationship with any of our five largest customers due to the following factors:

- (i) ***Our well-established production plant with a wide range of machinery and equipment can satisfy the need for quality products of our existing major customers and other potential customers***

To the best knowledge of our Directors, our major customers recognise our Group as one of their OEM or ODM suppliers who possess the capability of providing quality household necessity products to them.

We also maintain stable and long-term business relationships with our customers by, among others, working together with them in the development of their new products and offering various kinds of the value-added services to them. For details of the value-added services provided to our customers by us that differentiates us from other manufacturers, please refer to paragraphs headed "Our Business Model — OEM, ODM and OBM sale" in this section.

On the other hand, given our production machinery and equipment had been running close to their full utilisation during the Track Record Period, our Directors believe that if any of our major customers ceases to place orders with us, we can spare extra capacity to serve other existing customers or new customers by re-allocating our production capacity. Therefore, our Directors are of the view that if the volume of orders from any of our major customers diminishes, we are still

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able to secure alternative orders from existing customers and solicit orders from our potential customers to replenish our order book. Thus, the issue of customer concentration would not affect our business prospects and sustainability.

(ii) Continuous demands for household necessity products in the overseas market

According to the CIC Report, the number of households in the United States, the United Kingdom, Germany and Australia is expected to be increasing in future years, which together with the increasing number of households in other developed countries, will continue to stimulate the demand for household necessity products. Accordingly, our Directors believe that we can leverage our expertise and capabilities to capture further business opportunities in these countries. During the years ended 31 December 2018, 2019 and 2020, we had successfully increased the number of our customers from 37 to 48. For details, please refer to the paragraph headed “Sufficient market demand for our Group’s products — Industry growth” in this section.

(iii) Our established reputation for offering quality products and our experience in serving well-established international brands makes us appealing to other well-established international brands

Our Directors believe that by manufacturing and offering quality products to our five largest customers, which are brand owners or authorised agents of well-established international brands, on an OEM or an ODM basis, we have successfully built up a reputation in the market, which can be regarded as a credit to us. Hence, if the purchase orders from any major customers diminish or cease, with our expertise and reputation in manufacturing quality laundry products, household cleaning tools and kitchen gadgets, we can (i) avail our resources to provide our products to other well-established international brands; and (ii) focus on capturing business opportunities in overseas countries and regions where we have not yet established substantial sales channels, and in the local market in the PRC. While our Directors note that these well-established international brands, which are our potential customers, may not prefer to run the risk of changing their OEM or ODM suppliers or replacing their existing suppliers with us, our Directors take the view that our industry recognition built up over our years of operation, for details, please refer to the paragraph headed “Sufficient market demand for our Group’s products — Industry growth” in this section; coupled with our abilities to provide various kinds of value-added services to our OEM customers and to provide “one-stop” services to our ODM customers are important factors that make us appealing to these well-established international brands when they consider expanding their supplier lists or their product portfolio with products similar to those that we had supplied to our customers. Furthermore, capitalising on our industry experience and expertise, our Directors are of the view that it should not be difficult for us to pass the selection procedures of these well-established international brands. In addition, we believe that the development of our business relationship with our five largest customers during the Track Record Period would enable us to better understand (i) the criteria, requirements and quality standard of well-established international brands; and (ii) the

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key elements and strategies for effective customer management and manufacture and supply of quality products to these renowned customers, which can also be replicated to other customers. In this connection, we are striving to seek business opportunities from other well-established international brands which are yet to be our customers and at the same time, continue to strengthen our competitiveness as a well-established OEM and ODM suppliers, and strategically increase our level of participation in the product development of our major customers in order to consolidate our relationship with them.

For the reasons above, our Directors do not foresee there will be any difficulty for us to look for other well-established international brands as our customers.

(iv) We expand to OBM business by developing our own-brand products

Since December 2017, we have started developing and manufacturing household necessity products under our own brand, “*Jia Ji Bao*” (家吉寶) and sold our own-brand products through e-shops in the PRC markets. Our Directors are confident that by leveraging our experience and expertise in the manufacture of laundry products, household cleaning tools and kitchen gadgets for well-established international brands, we are capable of developing our OBM business. For details, please refer to the paragraphs headed “Our business strategies — IV. Expand our sales and marketing network” in this section.

PRICING POLICY

Our pricing policy aims to facilitate our profitable and sustainable growth strategy.

Some of our customers provide us a target ex-factory price together with the design and preliminary specifications and costing exercise is conducted as part of the product development process before confirming the ex-factory price with our customers. To meet our target profit margin, we negotiate with our customers on the ex-factory price and may adjust the design and/or material used before the final design and specification is agreed between our customers and us and order is placed.

Otherwise, we determine the prices of our products on a cost-plus basis. Since each product has its own specifications or requirements, we would also consider various factors including the cost of raw materials, the required specification of the products, the lead time, the labour costs, the size of the purchase orders, our profit margin, the expected date of delivery and the price of similar products in the market. We negotiate the pricing of each batch of products with individual customers on a case by case basis in order to maximise the profitability of our Group.

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As we generally purchase our major raw materials after we have received our customers' orders, our Directors believe that our Group could generally pass part of the risks arising from any fluctuation in the costs of raw materials to customers during the Track Record Period. In this connection, we continuously keep ourselves abreast of changes to the market prices of our products, conduct regular reviews on our pricing policy and pay close attention to responses from customers during the negotiations/quotations stage. Our Group may adjust the pricing policy to ensure our Group is responsive to changes in market prices in a timely manner to avoid any material adverse impact on our competitiveness, performance and financial conditions.

TAX REBATE

During the Track Record Period, our products were primarily delivered to overseas countries such as the United States, the United Kingdom, Germany and Australia. For the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, the revenue generated from sales of our products delivered overseas represented approximately 99.1%, 98.6%, 98.9% and 99.7% of our sales revenue, respectively. For these export sales, we are entitled to a rebate of VAT from the PRC tax authority, the purpose of which is to refund the VAT incurred on the raw materials an enterprise sourced for production of products in the PRC, which are subsequently exported overseas. For further details regarding the laws and regulations relating to the VAT rebate rate we are entitled to, please refer to paragraphs headed "Regulatory Overview — Laws and regulations relating to tax — Value-added tax (VAT)" in this prospectus. The amount of VAT rebate is calculated by multiplying the invoiced value of our export sales with the applicable rebate rate to the export product type, which varies between different product types. Application of tax rebate of a calendar year has to be made to the tax authority in the PRC by 30 April of the following calendar year. Should the PRC tax authority find the documents submitted in relation to an application for VAT rebate in order, the rebate will be realised by offsetting the VAT payable or by cash settlement. Our tax rebate for the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, amounted to approximately RMB39.9 million, RMB47.9 million, RMB46.9 million and RMB18.1 million, respectively. The increase in tax rebate from approximately RMB39.9 million for the year ended 31 December 2018 to approximately RMB47.9 million for the year ended 31 December 2019, notwithstanding that the ceiling of VAT rebate rate was adjusted down to 13% in April 2019, was mainly due to (i) the timing difference between the amount of sales revenue recognised from export sales and the amount of tax rebate in the export tax rebate application (免抵退稅申報類) in a year; (ii) the upward adjustment of the tax rebate rates applicable to certain of our product types with effect from 1 November 2018; and (iii) the grace period of three months from April to June 2019 and during which, the original rates of rebate before the implementation of the downward adjustment continue to apply.

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AFTER-SALE SERVICES AND PRODUCT RETURN

We generally do not accept product return except for quality reasons. We will follow up closely with our customers on the quality of our products and their requests for product return, conduct investigation on customers' complaints, arrange for refund repayments or rectification after the complaints have been confirmed.

During the Track Record Period and up to the Latest Practicable Date, we were not subject to any material product liability claim or material adverse publicity in relation to our products or their quality and we had not encountered any product return or recall which had a material impact on us.

Furthermore, to better serve our customers, our sales and marketing team is designated to handle and answer to all complaints, feedbacks and enquiries from our customers as soon as practicable upon receipt. If the complaint is related to quality issue of our products, our sales and marketing team will work with our production team to investigate into the matter. We also designate a sales representative to each customer other than general consumers to handle enquiries or address to their complaints, enquiries and feedback on our products.

DELIVERY AND LOGISTICS

As most of our products are for exports sales, delivery of our products to overseas customers is mainly on a FOB basis whereby we are generally responsible for the delivery of our products to the shipment port designated by our customers. The risks of loss or damage of goods transported under an FOB basis are passed to our customers when the products are on board of the vessel, and the purchaser bears all costs for the international shipment and the related expenses from that moment onwards. As such, we are responsible for the corresponding cost of delivery within the PRC. Occasionally, our products are delivered through shipment on a cost insurance and freight (CIF) basis whereby we cover transportation fees, custom clearance, international sea and air freight charges and insurance fees. However, risk is transferred to the buyers once the goods are loaded on the ship.

During the Track Record Period, we outsourced the delivery and logistics services to external logistics providers, who were Independent Third Parties, to deliver our products from our Huzhou Production Plant. For the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, costs associated with our delivery services were approximately RMB9.5 million, RMB10.3 million, RMB10.7 million and RMB3.9 million, respectively.

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Our Directors confirm that during the Track Record Period, we had not experienced any material disruption to our delivery arrangements and we had not suffered any material losses or pay any compensation as result of delays in delivery of our products by the logistics companies engaged by us.

IMPACT OF THE OUTBREAK OF COVID-19

Impact of COVID-19 on our business and operations

Following the outbreak of COVID-19 in December 2019 in the PRC and the global widespread since early 2020 and up to the Latest Practicable Date and the emergence of variants, the business and operations of the Group are in the PRC and our customers in overseas countries have been affected in the following ways:

(i) Changes in our financial performance

Our Directors believe that the impact of COVID-19 on both our revenue and the sales of our products to the countries where our sales were mainly made had been alleviated following the use and administration of COVID-19 vaccines in these countries albeit the emergency of Delta variants and other variants of COVID-19. For details of our revenue by destination of delivery for the Track Record Period, please refer to the paragraphs headed “Principal components of consolidated statements of profit or loss and other comprehensive income — Breakdown of revenue by location” in this section.

To the best knowledge of our Directors, none of our major customers in the countries affected by the COVID-19 outbreak has indicated to us that it will cancel any purchase orders placed with us since the COVID-19 outbreak. Given the nature of our products, being common household necessity products which are necessary to keep a home running smoothly and provide comfort and hygiene to users, our products are not easily replaceable by other products. According to the CIC Report, having already taken into account the impact of COVID-19, the market demand for laundry products, household cleaning tools and kitchen gadgets is expected to maintain steady growth in the future. In light of the above, our Directors believe that the potential impact of the COVID-19 outbreak on our Group’s business operations and financial conditions is only temporary and not long-term and would not affect the market demand for our products in the long run.

(ii) Our production

Our Group, like other manufacturers in the PRC, was subject to the PRC government’s requirement to extend the final day of the Chinese New Year Holidays from 30 January 2020 until 10 February 2020 (the “**Extension of Chinese New Year Holidays in 2020**”) and had temporarily suspended our production and operation during the period. Our Group resumed operations

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gradually starting from 12 February 2020. Furthermore, our staff who had travelled to other provinces were subject to compulsory 14-day quarantine and thus our production in February 2020 was adversely affected and the production schedule had also been delayed. Due to this temporary suspension of operation in February 2020, we experienced minor delay in scheduling our production plan and thus, the delivery of our products to three of our customers was temporarily affected. The duration of actual delays in delivery of goods to our customers was approximately 22 days with the relevant revenue of approximately RMB3.3 million. Nevertheless, our Directors confirmed that none of our customers had cancelled any orders or requested compensation from our Group. By mid-March 2020, our operations and production had been fully resumed. By the end of March 2020, all products related to the sales contracts scheduled for delivery in February and March were delivered. As confirmed by our Directors, the temporary suspension of our Huzhou Production Plant due to the Extension of Chinese New Year Holidays in 2020 had not resulted in any substantial delay in discharging our obligations under any purchase orders from our customers; and we had not been subject to any late charges or damages imposed on us by our customers. The number of daily new confirmed cases in the PRC remained at a low level up to the Latest Practicable Date and no new nationwide lockdown had been imposed by the PRC government. As at the Latest Practicable Date, all our machinery and equipment are operated in full swing and all our workforce had returned to work as the outbreak of COVID-19 has been effectively controlled in the PRC.

(iii) Our supply chain

As our suppliers are predominantly located in the PRC, this operation were therefore subject to temporary suspension during the Extension of Chinese New Year Holidays in 2020 and other quarantine measures imposed by their local governments. Apart from this short-term disruption, there was no material disruption or delay in the supply chain and delivery of raw materials to our Huzhou Production Plant.

(iv) Our inventory

To avoid accumulation of excessive inventories, we purchase most of our raw materials mainly based on the purchase orders placed by our customers from time to time, whether before or after the outbreak of COVID-19. As concerns the inventory of our work-in-progress and finished products, we generally commence production after receipt of purchase orders placed by the customers, and thus, during the outbreak of COVID-19, there was no significant risk of obsolescence of work-in-progress and finished products. Given our suppliers of raw materials are located in the PRC and all of them have resumed operation since mid-February 2020, our Directors take the view that we can continue to maintain our inventory policy even after the outbreak of COVID-19; and our Directors confirmed that the burn rate of our inventories has not experienced any significant deviation since the outbreak of COVID-19.

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(v) Our customers

Our business is export-oriented and our products are predominantly sold and delivered to the United States, the United Kingdom, Germany and Australia, which have been affected by the pandemic of COVID-19. To combat the spread of COVID-19 and its variants, these countries had to implement tough measures, for instance, putting their countries or cities under lockdown, restricting movement of people by pronouncing “stay-home” orders, suspending or limiting business operations in the countries or cities and restricting freight transportation, etc from time to time. Our Directors believe that if the spread of COVID-19 and its variants cannot be successfully contained in these countries, our transactions with customers in these countries and cities would inevitably encounter disruptions. Nevertheless, the governments in the United States, the United Kingdom, Germany and Australia have gradually relaxed their respective lockdown measures.

(vi) Our sales and marketing activities

Owing to the travel restrictions and/or lockdown measures imposed by the governments of various countries and cities as well as the governments’ recommendation to maintain social distancing to reduce the chance of transmission of COVID-19, our sales and marketing team has not been able to conduct certain sales and marketing activities such as face-to-face meetings with our potential and existing customers or attending trade fairs or exhibitions to explore potential and new business opportunities, and instead we conduct marketing activities through alternative means such as phone calls, emails and mobile applications, which our Directors believe, are relatively less effective than conducting visits or meetings directly with our customers or potential customers.

Our Directors expect that the impact of COVID-19 outbreak on the household necessity product market in these countries is not long-term on the basis that (i) the demand for household necessity products is less affected as they are necessary items for all households; (ii) the increased popularity of online shopping by consumers which allows consumers to buy household necessary products online in the event of closure of physical stores following the lockdown measures; (iii) recent breakthrough in the development and use of vaccines for preventing COVID-19 infections by well-established international pharmaceutical companies; (iv) the overall decreasing trend of daily new confirmed cases in the United States and Germany since January 2021 despite there were surges in daily new confirmed cases from time to time and the emergence of COVID-19 variants; and (v) the easing of national partial lockdown measures in the United Kingdom since mid-July 2021.

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Our preventive measures and business contingency plan

To prevent transmission of COVID-19 to and among our employees, we had implemented a series of company-wide preventive measures to monitor the health conditions of our employees and maintain a hygienic working environment inside our Huzhou Production Plant. For details, please see the sub-section headed “Occupation health and safety” in this section.

Our Group has implemented certain business contingency plans to ensure the supply chain of raw materials would not be disrupted due to the outbreak of COVID-19. Without entering into any long-term binding purchase agreements with our suppliers, in case of any material disruption in business of any of our PRC suppliers, our Group is free to source raw materials from alternative suppliers given the price of our principal raw materials including polypropylene resins and steel is generally influenced by the fluctuation in global price trends of crude oil, natural gas and iron ore etc. As such, even if our Group needs to source materials from alternative suppliers, there will not be any material increase in the cost incurred by our Group. Furthermore, as part of our contingency plan, our Group has short-listed a few other existing suppliers in PRC as our alternative suppliers who would supply quality raw materials to us if our major suppliers have to suspend their operation due to COVID-19, and at the same time, we maintain frequent communications with our major suppliers via digital meetings instead of physical meetings, to ensure that their operation was not disrupted.

Further, to ensure our business continuity, we would continue to maintain close business relationship with our major customers.

We also plan to expedite our plan in reaching out to local customers by strengthening our sales and marketing efforts to promote and develop our “*Jia Ji Bao*” (家吉寶) brand products. Our Directors believe that, with our expertise, product portfolio and design development capabilities to develop and manufacture household necessity products for our customers, we will be able to replicate our success in the PRC market in the event where our sales to overseas customers is materially and adversely affected by the COVID-19 outbreak.

TRANSFER PRICING ARRANGEMENT

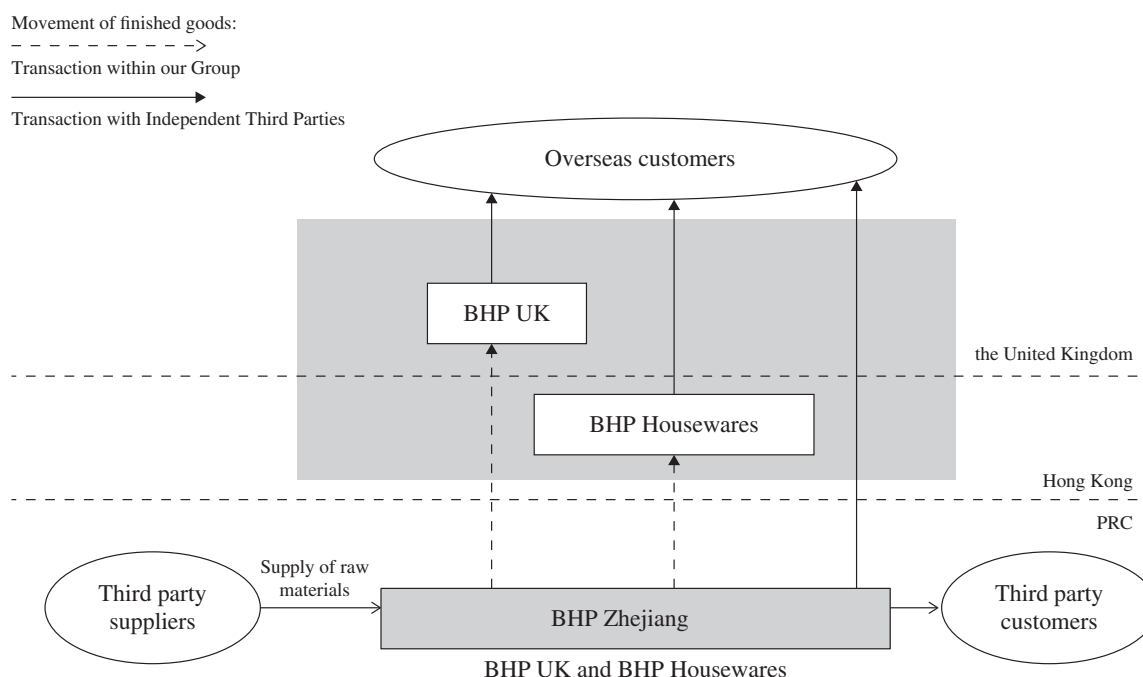
During the Track Record Period, while our orders for sales delivered overseas were principally concluded by our operating subsidiary BHP Zhejiang, some of our orders for our overseas sales were directly concluded by BHP Housewares, our subsidiary in Hong Kong, or with BHP UK, our subsidiary in the United Kingdom.

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Upon receipt of the sales orders from our customer, BHP Housewares and BHP UK would make a purchase order with BHP Zhejiang to manufacture the requested products. Finished goods manufactured by BHP Zhejiang are then directly sold to BHP Housewares or to BHP UK for onwards sales to our overseas customers. Most of our finished goods are exported on FOB basis and will be delivered based on the instruction of the customers.

These intra-group transactions are treated as sales from BHP Zhejiang to BHP Housewares and BHP UK and the selling prices are based on the then prevailing market price of our products. Our Directors confirmed that the relevant intra-group transactions were conducted on normal commercial terms. Notwithstanding that, we may be challenged by the relevant tax authorities on the appropriateness of these transactions and may be subject to possible tax exposure arising from our transfer pricing arrangement. Please refer to the paragraphs headed “Risk factors — Risks relating to our business — Our operations may be subject to transfer pricing adjustments by competent authorities” in this prospectus for further details. Our Directors confirmed that up to the Latest Practicable Date, our Group had not been subject to any enquiry, audit or investigation by any tax authority in the PRC or Hong Kong or United Kingdom with respect to transfer pricing carried out by our Group.

The flow chart below shows the major steps and parties involved in intra-group transactions between BHP Zhejiang and BHP Housewares or BHP UK.



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Stage 1 — Some of our overseas customers place orders with BHP Housewares and BHP UK

While our sales delivered overseas are principally undertaken by BHP Zhejiang, some of our sales delivered overseas are concluded by BHP UK and BHP Housewares. Upon receiving the orders from our overseas customers, BHP UK and BHP Housewares will make a purchase order with BHP Zhejiang.

BHP Housewares and BHP UK undertake the administrative activities and sales and marketing activities relating to the customers that purchase our products through them.

Stage 2 — Manufacturing of household products by BHP Zhejiang

BHP Zhejiang performs functions related to production, including raw materials purchasing, production and processing, quality control, etc. The products manufactured by BHP Zhejiang mainly include laundry products, household cleaning tools and kitchen gadgets.

BHP Zhejiang sells these products to BHP Housewares or BHP UK.

Stage 3 — Logistic management

BHP Housewares and BHP UK also helps arrange logistics for the overseas customers generally on a FOB basis.

Reason for such arrangement

BHP Housewares and BHP UK are mainly responsible for handling customers with orders of smaller volumes. Our Directors are of the view that it is more effective for BHP Housewares and BHP UK to consolidate these orders of smaller volumes together and to place orders with BHP Zhejiang. Our Directors believe that such transactions would enhance the effectiveness of our overall management and operation and allocation of resources. Going forward, BHP UK and BHP Housewares will continue to conclude orders of smaller volumes.

Potential tax exposure

In order to assess whether the sales transactions between BHP Zhejiang and BHP Housewares or BHP UK were carried out on an arm's lengths basis, we have engaged the Tax Consultant to conduct an analysis of the above transactions. Given the functional profiles of the parties involved in the transactions, transactional net margin method and the comparable uncontrolled transaction method have been adopted as the appropriate transfer pricing analysis methodologies to assess the arm's length nature of the above transactions.

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To assess the transactions between BHP Zhejiang and BHP Housewares, the Tax Consultant used the transactional net margin method to examine the profit level indicators that BHP Zhejiang realised from the intra-group transactions. The profit level indicators include, among others, earnings before interest and tax margin and full cost plus mark-up. In applying the method, the Tax Consultant identified comparable companies which have similar functions, bear similar risks and operate similar business to BHP Zhejiang. Under these criteria and the information sourced from a database, a number of public listed companies in Asia Pacific region are selected as comparable companies. The profit levels of these comparable companies are benchmarked as a reasonable range of profit levels. Based on the analysis, the Tax Consultant concluded that the profit level of the intra-group transactions between BHP Zhejiang and BHP Housewares during the Track Record Period was within the range of profit levels of comparable companies.

To assess the transactions between BHP Zhejiang and BHP UK, the Tax Consultant used the comparable uncontrolled transaction method to examine the service fees paid by BHP Zhejiang to BHP UK. In applying the method, the Tax Consultant identified comparable service agreements which provide similar services in similar industry from a database. The service fee rates of these comparable agreements are benchmarked as a reasonable range of service fee rates. Based on the analysis, the Tax Consultant concluded that the service fee rates of the intra-group transactions between BHP Zhejiang and BHP UK during the Track Record Period fall within the range of service fee rates of comparative agreements. In view of this, the Tax Consultant is of the view that the aforementioned intra-group transactions were conducted on arm's length basis and there is no potential tax obligations arising from these intra-group transactions.

Based on the discussion with the Tax Consultant and the above comprehensive assessment bases by the Tax Consultant, the Directors take the view that the transfer pricing arrangement under the above transactions between BHP Zhejiang and BHP Housewares or BHP UK have complied with the applicable transfer pricing rules and regulations in the PRC, Hong Kong and the United Kingdom, which require related party transactions to be carried out on an arm's length basis.

Measure to ensure on-going compliance

Our Group's transfer pricing arrangement is part of our normal trading operation where an arm's length transaction price needs to be established. We have implemented a general policy in this area to follow the arm's length principle and to achieve an arm's length outcome. We will regularly review the arrangements between BHP Zhejiang and BHP Housewares or BHP UK, and where necessary, appoint tax consultant to review such transfer pricing arrangements to ensure compliance with the arm's length principle.

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As at the Latest Practicable Date, BHP Zhejiang had completed all the relevant tax filings related to its related party transactions in compliance with the relevant PRC laws and regulations and our Directors are not aware of any enquiry, audit or investigation by any tax authority in the PRC or Hong Kong and the United Kingdom with respect to the transfer pricing arrangements carried out by our Group.

IMPACT OF THE TRADE WAR ON OUR BUSINESS

In recent years, the United States has advocated greater restrictions on trade generally and significant increases on duties on goods imported into the United States, particularly from the PRC, and has recently taken steps toward restricting trade in imported Chinese products. As our Group exports our products to the United States, these duties may have an adverse impact on our Group's business operation and financial results. For further details, please refer to the paragraphs headed "Risk factors — Risks relating to our business — Our businesses are subject to international trade policies and trade barriers with respect to overseas sales, which could adversely affect our business and results of operations" in this prospectus.

Background and development of additional United States duty

The United States has recently taken steps toward restricting trade in imported Chinese products. Specifically, starting in July 2018, the United States imposed actions in the form of additional duties on certain Chinese products. This means that when these products of Chinese origin are imported into the United States, they are subject to additional import duties, currently varying from 7.5% to 25%, unless the products are covered by product-specific exclusions (the "Exclusions") granted by the US Trade Representative ("USTR"). Certain Exclusions are only extended up to 31 December 2020 or early 2021, which means that Section 301 regarding the additional duties on products of Chinese origin that were subject to the Exclusions will most likely resume in 2021. To the best knowledge of our Directors after making reasonable enquiries, none of our products fell into the ambit of the Exclusions during the Track Record Period and our Directors take the view that the Exclusions had no impact on our products.

On 6 July 2018, the United States began imposing an additional duty of 25% on imported Chinese products with an annual trade value of approximately US\$34 billion ("**List 1**"). On 23 August 2018, the United States imposed an additional 25% duty on imported Chinese products with an annual trade value of approximately US\$16 billion ("**List 2**"). The products targeted by the increased duties on List 1 and List 2 include machinery, televisions, medical devices, aircraft parts and batteries.

In light of the PRC's subsequent retaliatory response by imposing duties on the United States goods, the United States proposed to take further action in the form of additional duties on products originating from the PRC with an annual trade value of approximately US\$200 billion

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(“**List 3**”), including categories such as consumer products, chemical and construction materials, textiles, tools, food and agricultural products, commercial electronic equipment and vehicle/automotive parts. On 24 September 2018, the United States further imposed an additional duty of 10% on Chinese imports on List 3 which was increased to 25% effective on 8 May 2019.

After another round of trade talks between the PRC and the United States in June and July 2019 failed, on 20 August 2019, the United States announced that it would impose an additional duty to the remaining approximately US\$300 billion of Chinese imports, which covered almost all imported Chinese products not subject to additional duty then (“**List 4**”). The additional duty of 15% on part of these products began on 1 September 2019 (“**List 4A**”, US\$120 billion) and the others were at first scheduled to take effect on 15 December 2019 (“**List 4B**”, US\$160 billion).

The United States and the PRC made further progress on trade talks after October 2019. On 15 January 2020, the PRC and the United States entered into the “Economic and Trade Agreement between the Government of the United States of America and the Government of the People’s Republic of China” (the “**Phase One Trade Agreement**”). In connection with entering into the Phase One Trade Agreement, the United States suspended the additional duty of 15% on Chinese imports on List 4B which were scheduled to take effect on 15 December 2019 until further notice and reduced the additional duty of 15% on Chinese imports on List 4A which took effect on 1 September 2019 to 7.5% effective on 14 February 2020. As a result, our products falling into the ambit of List 4B are not subject to additional United States Section 301 duty. Nearly all of our products appear to fall under List 4A or List 3, rendering these products subject to an additional duty of 7.5% or 25% when being imported into the United States. The status of the tariffs may change as the trade negotiations between China and the United States evolves. As advised by our legal advisers as to United States laws, in October 2021, USTR Ambassador stated that China is not fully complying with the Phase One Agreement and has failed to make “meaningful reforms” to address the concerns shared by the United States and other countries regarding China’s economy. Thus, the current Section 301 tariffs will remain in place. The USTR Ambassador also indicated that the Administration is keeping open the potential for additional tariff exclusion processes.

Impact of the United States duty on our products

During the Track Record Period, the sale of our products to the United States as delivery destination accounted for approximately 44.9%, 44.4%, 46.3% and 26.9% of our total revenue, respectively. The decrease in the sale of our products to the United States as a percentage of our total revenue for the four months ended 30 April 2021 as compared to the full year ended 31 December 2020 was mainly attributed to (i) the decrease in sale of our products to the Bradshaw Group due to the timing factor that the proportion of the sales to Bradshaw Group during a year is generally higher in the second half of a year; (ii) the increase in sales of laundry products to Germany as Customer A launched marketing activities; and (iii) increase in sales of laundry

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products delivered to the Netherlands for the period. The table below sets forth the breakdown of product category and corresponding revenue derived from products that fall under List 3, 4A and 4B for the years and period indicated:

| | For the year ended 31 December | | | For the four months ended 30 April |
|---------------------------------------|--------------------------------|-----------------------|-----------------------|--|
| | 2018 | 2019 | 2020 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 25% (List 3) | | | | |
| Laundry products | 2,644 | 3,091 | 512 | 324 |
| Household cleaning tools | 5,370 | 7,728 | 29,858 | 2,735 |
| Kitchen gadgets | 3,159 | 2,563 | 1,115 | — |
| | <u>11,173</u> | <u>13,382</u> | <u>31,485</u> | <u>3,059</u> |
| 7.5% (List 4A) | | | | |
| Laundry products | 4,041 | 256 | 3,027 | 353 |
| Household cleaning tools | 129,114 | 131,991 | 131,225 | 30,504 |
| Kitchen gadgets | 412 | 2,733 | 12,048 | 68 |
| | <u>133,567</u> | <u>134,980</u> | <u>146,300</u> | <u>30,925</u> |
| 15% (List 4B)^(Note) | | | | |
| Laundry products | — | — | — | — |
| Household cleaning tools | 2,804 | 1,209 | 324 | — |
| Kitchen gadgets | — | — | — | — |
| | <u>2,804</u> | <u>1,209</u> | <u>324</u> | <u>—</u> |
| Total | <u><u>147,544</u></u> | <u><u>149,571</u></u> | <u><u>178,109</u></u> | <u><u>33,984</u></u> |

Note: As at the Latest Practicable Date, the additional duty for List 4B had been suspended until further notice.

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Details of the impact of the United States duty on our products as at the Latest Practicable Date are set forth below:

| List | Principal products targeted by additional United States duty | Our products which are subject to additional United States duties | Rate of additional United States duties | Effective date of implementing the additional United States duties |
|------|---|---|---|--|
| 3. | Consumer products, chemical and construction materials, textiles, tools, food and agricultural products, commercial electronic equipment, vehicle/automotive parts and others | Laundry products, Household cleaning tools, Kitchen gadgets | originally 10% and increased to 25% | 24 September 2018 (10%) 10 May 2019 (25%) |
| 4A. | Televisions, clothing, footwear, sporting equipment, table linens, bedding, dishes, food, beverages and others | Laundry products, Household cleaning tools, Kitchen gadgets | originally 15% and reduced to 7.5% | 1 September 2019 (15%) 14 February 2020 (7.5%) |
| 4B. | Cell phones, laptop computers, video game consoles, certain toys, computer monitors, certain items of footwear and clothing and others (the “ Excluded Products ”) | Household cleaning tools | 15% | Suspended until further notice |

Party responsible for the additional United States duty

As advised by our legal advisers as to United States laws, the United States importer is ultimately liable for the payment of all import duties upon importation into the United States. As our products were sold and delivered to the United States on an FOB basis, we are not the party that imports products into the United States, we are not responsible for customs clearance within the jurisdiction of the United States nor are we responsible for the payment of any import duties for products imported into the United States. Nonetheless, our customers, being the parties which import goods into the United States, may transfer the extra costs incurred by them as a result of the duty to us.

Implication of additional United States duty on our business

Nearly all of our Group’s products sold to the United States appear to fall under List 4A or List 3, subject to an additional duty of 7.5% or 25%. Only one type of product (window cleaning set) was under List 4B, of which as at the Latest Practicable Date, additional duty is currently suspended. As at the Latest Practicable Date, our Directors confirm that we have not been asked to

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reduce the selling price of our products which fall into the ambit of List 3 or List 4A or List 4B or to bear any of such duty for which our customers were responsible. Regarding our products sold to the United States, which are under List 3 (i.e. 25% duty rate), List 4A (i.e. 7.5% duty rate) and List 4B (i.e. 15% duty rate which is, as at the Latest Practicable Date, suspended), based on (i) our longstanding relationship with our customers in the United States, especially the Bradshaw Group; (ii) the competitiveness of our pricing, product design, development and production capabilities to meet customers' requirements; and (iii) the nature of our products, which are common types of household necessity products, makes it less vulnerable to sudden change in market demand resulting from the duties, our Directors are of the view that the demand and the average selling prices of these products will not be materially and adversely affected.

The table below sets forth the average monthly revenue and sales volume of products sold to the United States before and after the imposition of relevant duties:

| | Average monthly revenue | Average monthly sales volume |
|---|-------------------------------|------------------------------------|
| | <i>RMB'000</i> | <i>'000 unit</i> |
| For the period from 1 January 2018 to 23 September 2018 <i>Effective date of the List 3 additional duties</i> <i>24 September 2018 (10%)</i> | 11,845 | 1,300 |
| For the period from 24 September 2018 to 9 May 2019 <i>10 May 2019 (25%)</i> | 11,858 | 1,276 |
| For the period from 10 May 2019 to 31 August 2019 <i>Effective date of the List 4A additional duties (Note 1)</i> <i>1 September 2019 (15%)</i> | 12,713 | 1,208 |
| For the period from 1 September 2019 to 13 February 2020 <i>14 February 2020 (7.5%)</i> | 12,474 | 1,310 |
| For the period from 14 February 2020 to 30 April 2021 <i>(Note 2)</i> | 13,352 | 1,449 |

Notes:

1. The additional duty of 15% on Chinese imports on List 4A which took effect on 1 September 2019 were reduced to 7.5% effective on 14 February 2020.
2. The increase in our average monthly revenue and average monthly sales volumes to the United States was mainly due to the increase in our sales of household cleaning tools to the Bradshaw Group in 2020.

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After the imposition of the List 3 additional duties on our products on 24 September 2018, our average monthly revenue and average monthly sales volume remained relatively stable for the period from 24 September 2018 to 31 August 2019, as most of our products sold to the United States did not fall into the ambit of List 3. After the imposition of List 4 additional duties on 1 September 2019 at 15%, our average monthly revenue and average monthly sales volume remained relatively stable for the period from 1 September 2019 to 13 February 2020 due to our longstanding relationship with the Bradshaw Group, our competitiveness and the nature of our products which are common types of the household necessity products. After the reduction of the List 4 additional duties to 7.5% on 14 February 2020, our average monthly revenue and average monthly sales volume increased during the period from 14 February 2020 and 31 December 2020 mainly due to the increase in our sales to the Bradshaw Group. For further details on why our average monthly revenue and average monthly sales volume was not negatively affected by the additional duties and why the Bradshaw Group placed more orders with us despite the increase in tariff, please refer to the paragraphs headed “Business — Customer concentration — Background of our five largest customers and our relationship with our five largest customer” in this section. Moreover, none of our customers in the United States have indicated to reduce their orders with us amid the China-US trade war. Therefore, our Directors do not foresee that the demand for our products will be materially and adversely affected by the imposition of United States duty.

To minimise the potential impact of the United States duties on our business and to maintain our position as a well-established and reliable OEM or ODM supplier to our customers in the United States, we are planning to adopt the following strategies:

- (i) *Price adjustment:* To maintain our competitiveness and subject to any changes in circumstances, if we find it necessary, we may adjust the price of our products in the short-term to the extent that it will not significantly offset or affect our financial performance. In this respect, when the circumstance arises, we will discuss with our customers the price adjustment of our products. However, our Directors are of the view that we will not face pricing pressure from customers in other countries primarily because we do not adopt uniform pricing for our products in different countries. The price of our products in different countries is determined with reference to various factors including the competitive landscape of the countries and prices of the products offered by our competitors. As at the Latest Practicable Date, our Directors confirm that we had not received any price reduction request from our major customers in the United States or other countries due to any possible price adjustment that we would offer to any other customer;

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- (ii) *Concentrating our efforts on customers in countries and regions other than the United States:* In order to mitigate any inherent risks arising from the impact of any additional United States duties, we will (i) allocate more production capacity and resources for production of products to customers located in the countries and regions other than the United States such as the United Kingdom, Germany and Australia; and (ii) increase our sales and marketing efforts by online channels in these countries and regions to expand our pool of customers in these countries and regions. During the Track Record Period, our Group had recorded a strong performance in countries and regions other than the United States. Our revenue generated from the United Kingdom, Germany and Australia during the Track Record Period remained relatively stable. For the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, our revenue generated from products delivered to the United Kingdom, Germany and Australia was RMB154.9 million, RMB161.4 million, RMB163.9 million and RMB70.6 million, respectively. We also maintained long-term business relationship with other top five customers in Germany, Australia, the United Kingdom and Austria during the Track Record Period. Some of our major customers located outside of the United States have indicated to us that they would place more purchase orders with us if our production capacity allows. According to the CIC Report, population growth and in particular, the prevalence of smaller households, is expected to continue in the United Kingdom, Germany, and Australia which would drive demand for household necessity products in these markets. Moreover, our sales to countries other than the United States, the United Kingdom, Germany and Australia increased from approximately RMB25.6 million for the year ended 31 December 2019 to approximately RMB42.7 million for the year ended 31 December 2020. Our Directors believe that our proven track record of delivering quality products to well-established international brand owners can provide us with good creditability to expand our sales to more countries other than the United States.

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- (iii) *Developing our OBM business in the PRC market:* Along with our plan to allocate more efforts on customers in countries and regions other than the United States, we will also further develop our OBM business in the PRC market to reach out to local consumers in the PRC. Since December 2017, we have started developing and manufacturing household necessity products under our own-brand, “*Jia Ji Bao*” (家吉寶) and sell our own-brand products through e-shops in the PRC market. For further details, please refer to the paragraphs headed “Our business strategies — IV. Expand our sales and marketing network” in this section;
- (iv) *Maintain disciplined financial strategy:* We will strive to maintain relatively stable gross profit margins amid the increase in United States duties. On top of the above mitigating measures, we also continue to focus on our internal control system to maintain disciplined financial strategy by achieving relatively stable profit margin. For example, (i) our production team, sales and marketing team and finance team will have meetings from time to time to closely monitor key areas such as our production process and the cost thereof; (ii) we also have regular meetings among senior management to ensure that major decisions related to our expenses, sales forecast, cash flow projections, investments and expansion plans etc. are discussed and deliberated among the senior management of our Group; and (iii) our finance team is required to conduct periodic review of our performance and financial condition. Attributed to our internal control system, despite the recent heightened China-US trade tension, we were able to achieve a relatively stable profit margin during the Track Record Period. For the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, our gross profit margin of products delivered to the United States was approximately 26.3%, 26.6%, 29.0% and 25.8%, respectively. Having considered the effectiveness of our mitigation measures to date, our Directors believe that we could be least impacted by the trade tension in the future and there is no indication of material deterioration in our financial performance to our Group as a whole.

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Analysis of hypothetical impact on the revenue and profit of our Group if all additional US duties are borne by us

The following illustrates the hypothetical impact on the revenue and profit for the year of our laundry products, household cleaning tools and kitchen gadgets sold to the United States as the destination of delivery assuming that no exclusions apply and taking into account that corresponding duty rates were applied during the Track Record Period, if all additional US duties applicable to our products are borne by us, while all other factors remain unchanged:

| | For the year ended 31 December | | | For the four months ended 30 April |
|--|--------------------------------|----------------|----------------|------------------------------------|
| | 2018 | 2019 | 2020 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue for the year | 328,748 | 336,553 | 384,740 | 126,240 |
| Revenue from the United States | 147,544 | 149,571 | 178,109 | 33,984 |
| Profit for the year/period | 40,996 | 34,057 | 46,252 | 11,890 |
| Assuming the additional US duties are borne by us | | | | |
| Estimated decrease in revenue | 191 <i>(Note 1)</i> | 9,949 | 19,620 | 3,084 |
| Estimated decrease in net profit | 141 <i>(Note 1)</i> | 7,462 | 14,715 | 2,313 |

Note 1: On 24 September 2018, the United States started to impose an additional duty of 10% on imported Chinese products on that fell into the ambit of List 3. For the period from 24 September 2018 to 31 December 2018, our products sold to the United States which fell into the ambit of List 3 amounted to approximately RMB0.2 million.

As at the Latest Practicable Date, the addition duty for List 4B had been suspended until further notice. As a result, the Directors expect that there would be no impact on our Group's financial performance for our products that fall under List 4B.

IMPACT OF THE BREXIT ON OUR BUSINESS

Background and recent development of Brexit

On 23 June 2016, the United Kingdom held a referendum pursuant to which the United Kingdom electorate voted in favour of its withdrawal from the EU (“**Referendum**”). While the United Kingdom was originally scheduled to cease to be a member of the EU on 29 March 2019, the United Kingdom only ceased to be a member of the EU since 31 January 2020 (“**Brexit**”). The United Kingdom remained subject to EU laws and regulations during the transitional period which expired on 31 December 2020. Prior to the end of the transitional period, on 24 December 2020,

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the United Kingdom and the EU has reached an agreement, namely the EU-UK Trade and Cooperation Agreement (the “TCA”), determining the terms of the United Kingdom’s relationship with the EU.

Impact of Brexit on our products and customers in the United Kingdom

For the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, the revenue that we generated from products sold to the United Kingdom as delivery destination amounted to approximately RMB62.1 million, RMB60.5 million, RMB61.6 million and RMB26.3 million respectively, representing approximately 18.9%, 18.0%, 16.0% and 20.8% of our total revenue, respectively. Our Directors believe that Brexit will not have a material adverse impact on our Group’s business or our sustainability for the following reasons:

- (i) During the Track Record Period and up to the Latest Practicable Date, our cost of sales is predominantly denominated in RMB, and our overseas sales are predominantly denominated in USD. Therefore, exposure to any risks arising from the currency fluctuations in GBP as a result of Brexit is limited;
- (ii) To the best knowledge of our Directors, the tariff rates and corporate income tax rates borne by BHP UK remain unchanged since Brexit. As such, our exposure to any tax-related risks arising from Brexit is limited; and
- (iii) According to the CIC Report, since the TCA has set out arrangements preferential to the UK for trade in goods and in services and digital trade, the retail sales of drying racks in the United Kingdom are expected to increase from approximately GBP93.3 million in 2021 to approximately GBP103.2 million in 2025, representing a CAGR of approximately 2.6%. Moreover, as stated in the CIC Report, the TCA on the United Kingdom local economy is expected to have minimal effect on the trade relations between the PRC and the United Kingdom as the PRC has been the world factory for household necessities since the country entered into the World Trade Organization in 2011, the majority of the drying racks in the United Kingdom, which is a common type of daily household necessity products, are supplied by the PRC manufacturers. Therefore, even if there is a potential downturn of the United Kingdom local economy, such downturn will not affect the PRC’s position as the United Kingdom’s major supplier of drying racks. In view of the above, our Directors consider that the potential impact of Brexit on the sale of our laundry products to the United Kingdom would not be significant.

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OUR SUPPLIERS

Our suppliers supply us with raw materials and plastic injection moulding service. The major raw materials used in the production of our household necessity products include polypropylene resins, steel, textiles, and packaging materials such as wrapping paper and carton boxes. During the Track Record Period, our Group sourced and procured raw materials predominantly from the suppliers in the PRC.

We have maintained a stable relationship with our major suppliers. Our business relationship with our five largest suppliers during the Track Record Period ranged from approximately four years to 11 years.

The purchase prices of raw materials are determined between the suppliers and us on a case-by-case basis with reference to the then market prices. The credit terms granted by our major suppliers are generally from 0 to 60 days. Payments are generally made by telegraphic transfers or bank acceptance bill and are settled in RMB.

The raw materials we purchased for the years ended 31 December 2018, 2019 and 2020 and the four months ended 30 April 2021 amounted to approximately RMB166.8 million, RMB174.9 million, RMB191.2 million and RMB70.3 million, respectively. During the Track Record Period, we did not experience any significant shortage of raw materials causing material disruption to our works. Our Directors believe that the supply of raw materials we usually use is stable and sufficient in the market.

Major terms with suppliers

As our major raw materials, namely, polypropylene resins, steel, textiles and packaging materials, are generally readily available in the PRC, our Directors believe that, if required, we can purchase readily from alternative suppliers at prices and quality comparable to those provided by our current suppliers. As such, we did not enter into long-term supply agreement with our suppliers during the Track Record Period and up to the Latest Practicable Date. Our Directors are of the view that our practice of not entering into long-term supply agreements with our suppliers would not have material adverse impact on our production and business operations.

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Instead, our Group would issue purchase orders to the suppliers for each purchase. The salient features of a purchase order are set out below:

Standard terms of our purchase orders. Our purchase orders contain specifications and the quantity of raw materials procured by us, their unit price and the total transaction amount, the required standard of the raw materials, payment date, delivery method and delivery date. Suppliers are usually required to deliver the raw materials to our warehouse at our Huzhou Production Plant at our costs on or before a specified date; and

Credit terms and settlement method. Generally, our suppliers allow us to settle 0 to 60 days from the first day of the succeeding month of the invoice date. Payments are generally made by telegraphic transfer or bank acceptance bill in RMB.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not experienced nor were we aware of any circumstance leading to any contractual disputes with or claims by our major suppliers.

Plastic injection service providers

We engage plastic injection service providers for carrying out plastic injection moulding when the plastic injection machines of our Huzhou Production Plant are running close to their full utilisation.

During the Track Record Period, our Group engaged Deqing Xinzhong Plastic Co., Ltd.* (德清新眾塑膠有限公司) (“**Deqing Xinzhong**”), Deqing Hongsheng Plastic Co., Ltd.* (德清宏升塑膠有限公司) (“**Deqing Hongsheng**”) and Deqing Yongsheng Plastic Product Factory* (德清永盛塑料製品廠) (“**Deqing Yongsheng**”, together with Deqing Xinzhong and Deqing Hongsheng, the “**Plastic Injection Service Providers**”) to process plastic into parts that we will further assemble into household necessity products. The Plastic Injection Service Providers are considered as connected persons of our Group, for further details, please refer to the section headed “Continuing connected transactions”. Our Directors confirmed that the engagement to the processing service providers was an interim measure taken by us on an as-needed basis in light of the high utilisation rate of our production lines during the relevant period. For the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, our total processing fees with Plastic Injection Service Providers amounted to approximately RMB12.8 million, RMB14.5 million, RMB15.9 million and RMB8.0 million, respectively, representing approximately 5.4%, 6.0%, 5.9% and 8.8% of our total cost of sales, respectively.

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During the Track Record Period, our Group entered into framework agreements with our Plastic Injection Service Providers. The following table summarises the major terms of our framework agreements with our Plastic Injection Service Providers:

| | | |
|-------------------------------------|---|---|
| Term of agreements | : | The length of the agreements is one year and is renewed upon expiry unless either party gives written notice of termination within one month prior to expiry. |
| Minimum amount for service required | : | No minimum amount of service required. |
| Quality control and warranty period | : | The service providers will perform sampling inspection on the processed parts; the warranty period is 12 months from the date of the processed parts accepted by our Group. |
| Delivery: | : | The service providers will, at their own costs, arrange delivery of the processed parts to the location designated by our Group. |
| Confidentiality undertaking | : | The service providers will not disclose to any third party any trade secrets, technical know-how and any other information acquired in the course of conducting business with our Group, unless such disclosure is permitted with the prior written consent of our Group. |
| Termination | : | The agreements can be terminated by mutual agreement of both parties. |

Our staff will attend the production plant of our processing service providers when the processing service works are taking place. They will supervise production processes, and conduct testing to ensure the processed items are in compliance with our specifications. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material disputes with our processing service providers.

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Our major suppliers

Owing to the large variety of our products we manufacture, we have maintained a pool of approved suppliers to support our operation. We generally have alternative sources to supply the same kind of raw materials and hence, the loss of any single supplier would not have a material impact on our operations. During the Track Record Period, we had over 300 suppliers on our list of approved suppliers. For the same years, our purchases made to our five largest suppliers amounted to approximately RMB63.0 million, RMB61.6 million, RMB61.2 million and RMB26.4 million, respectively, representing approximately 35.1%, 32.5%, 29.3% and 33.2% of our total purchases, respectively. For the same years, our purchases made to our largest supplier amounted to approximately RMB30.4 million, RMB29.9 million, RMB30.8 million and RMB11.9 million, respectively, representing approximately 16.9%, 15.8%, 14.8% and 15.0%, respectively, of our total purchases.

The following tables set forth the profiles of our five largest suppliers during the Track Record Period:

For the year ended 31 December 2018

| Rank | Supplier | Principal business | The year our supplier first started to do business with us | Approximate amount of purchases | Approximate percentage to the total purchases incurred in that year | Principal raw materials/ service purchased | Credit period and payment method |
|------|------------|--|--|---------------------------------|---|--|--|
| | | | | <i>(RMB'000)</i> | | | |
| 1 | Supplier A | A PRC private company that engages in the sales of metals, construction materials and plastic materials. | 2017 | 30,380 | 16.9% | Steel | 30 days, telegraphic transfer and bank acceptance bill |
| 2 | Supplier F | A PRC private company that engages in the sales of chemical products, natural rubber and plastic raw materials and products. | 2013 | 15,303 | 8.5% | Polypropylene resins | 7 days, telegraphic transfer |

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| Rank | Supplier | Principal business | The year our supplier first started to do business with us | Approximate amount of purchases | Approximate percentage to the total purchases incurred in that year | Principal raw materials/ service purchased | Credit period and payment method |
|--------------|------------|--|--|---------------------------------|---|--|-------------------------------------|
| | | | | <i>(RMB'000)</i> | | | |
| 3 | Supplier G | A PRC private company that engages in the sales of hazardous chemicals. | 2010 | 6,152 | 3.4% | Polypropylene resins | Upon delivery, telegraphic transfer |
| 4 | Supplier H | A PRC private company that engages in the production of silk textiles, cotton textile and synthetic yarns textile. | 2014 | 5,859 | 3.3% | Textile | 60 days, bank acceptance bill |
| 5 | Supplier E | A PRC private company that engages in the production of packaging and decoration materials. | 2017 | 5,344 | 3.0% | Packaging materials | 60 days, bank acceptance bill |
| Total | | | | 63,038 | 35.1% | | |

For the year ended 31 December 2019

| Rank | Supplier | Principal business | The year our supplier first started to do business with us | Approximate amount of purchases | Approximate percentage to the total purchases incurred in that year | Principal raw materials/ service purchased | Credit period and payment method |
|------|------------|--|--|---------------------------------|---|--|---|
| | | | | <i>(RMB'000)</i> | | | |
| 1 | Supplier A | A PRC private company that engages in the sales of metals, construction materials and plastic materials. | 2017 | 29,947 | 15.8% | Steel | 30 days, telegraphic transfers and bank acceptance bill |

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| Rank | Supplier | Principal business | The year our supplier first started to do business with us | Approximate amount of purchases | Approximate percentage to the total purchases incurred in that year | Principal raw materials/ service purchased | Credit period and payment method |
|------|-----------------|--|--|---------------------------------------|--|---|---|
| | | | | <i>(RMB'000)</i> | | | |
| 2 | Supplier F | A PRC private company that engages in the sales of chemical products, natural rubber and plastic raw materials and products. | 2013 | 14,181 | 7.5% | Polypropylene resins | 7 days, telegraphic transfer |
| 3 | Supplier H | A PRC private company that engages in the production of silk textiles, cotton textile and synthetic yarns textile. | 2014 | 6,778 | 3.6% | Textile | 60 days, bank acceptance bill |
| 4 | Deqing Xinzhong | A PRC private company that engages in the production of plastic products and raw materials. | 2011 | 5,352 | 2.8% | Plastic injection moulding service | 30 days, telegraphic transfer and bank acceptance bill |
| 5 | Supplier E | A PRC private company that engages in the production of packaging and decoration materials. | 2017 | 5,314 | 2.8% | Packaging materials | 60 days, bank acceptance bill |
| | | | | <u>61,572</u> | <u>32.5%</u> | | |
| | Total | | | | | | |

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For the year ended 31 December 2020

| Rank | Supplier | Principal business | The year our supplier first started to do business with us | Approximate amount of purchases | Approximate percentage to the total purchases incurred in that year | Principal raw materials/ service purchased | Credit period and payment method |
|------|--------------|--|--|---------------------------------------|--|---|---|
| | | | | <i>(RMB'000)</i> | | | |
| 1 | Supplier A | A PRC private company that engages in the sales of metals, construction materials and plastic materials. | 2017 | 30,815 | 14.8% | Steel | 30 days, telegraphic transfer and bank acceptance bill |
| 2 | Supplier F | A PRC private company that engages in the sales of chemical products, natural rubber and plastic raw materials and products. | 2013 | 8,954 | 4.3% | Polypropylene resins | 7 days, telegraphic transfer |
| 3 | Supplier B | A PRC private company that engages in the sales of chemical raw materials and products. | 2015 | 7,599 | 3.6% | Polypropylene resins | 3 days, telegraphic transfer |
| 4 | Supplier H | A PRC private company that engages in the production of silk textiles, cotton textile and synthetic yarns textile. | 2014 | 7,370 | 3.5% | Textile | 60 days, bank acceptance bill |
| 5 | Supplier I | A PRC private company that engages in the production and sales of aluminium products. | 2010 | 6,442 | 3.1% | Aluminium | 30 days, telegraphic transfer |
| | | | | 61,180 | 29.3% | | |
| | Total | | | | | | |

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For the four months ended 30 April 2021

| Rank | Supplier | Principal business | The year our supplier first started to do business with us | Approximate amount of purchases | Approximate percentage to the total purchases incurred in that year | Principal raw materials/ service purchased | Credit period and payment method |
|------|-----------------|--|--|---------------------------------|---|--|--|
| | | | | <i>(RMB'000)</i> | | | |
| 1 | Supplier A | A PRC private company that engages in the sales of metals, construction materials and plastic materials. | 2017 | 11,896 | 15.0% | Steel | 30 days, telegraphic transfer and bank acceptance bill |
| 2 | Supplier J | A PRC private company and its group companies that engage in the sales of a variety of products such as energy resources, chemical products, iron and steel. | 2018 | 4,351 | 5.5% | Polypropylene resins | 7 days, telegraphic transfer |
| 3 | Supplier I | A PRC private company that engages in the production and sales of aluminium products. | 2010 | 3,852 | 4.8% | Aluminium | 30 days, telegraphic transfer |
| 4 | Deqing Xinzhong | A PRC private company that engages in the production of plastic products and raw materials. | 2011 | 3,373 | 4.2% | Plastic injection moulding service | 30 days, telegraphic transfer and bank acceptance bill |
| 5 | Supplier C | A PRC private company that engages in the production and sales of metal materials and products. | 2012 | 2,907 | 3.7% | Aluminium | 30 days, telegraphic transfer and bank acceptance bill |
| | | | | 26,379 | 33.2% | | |
| | Total | | | | | | |

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Relationship with our five largest suppliers during the Track Record Period

None of our Directors, their respective close associates, or any Shareholders who or which, own more than 5% of the issued share capital of our Group as at the Latest Practicable Date, had any interest in any of the five largest suppliers of our Group during the Track Record Period. Save for Deqing Xinzhong which was our fourth largest supplier for the year ended 31 December 2019 and a connected person to our Company, all of our five largest suppliers are Independent Third Parties.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, (i) we had not relied on any single source of supply for our raw materials; (ii) we had no major returns of raw materials relating to quality problems during the Track Record Period; (iii) we had not experienced any material disruption or dispute in supply that may adversely affect or delay our production plan; and (iv) we had not experienced any material delay in making payments to our suppliers.

Selection of suppliers

Our Group selects suppliers based on a number of criteria including their product quality, pricing, supply capability, reputation, timely delivery and business track record with our Group. Our Group regularly communicates with our suppliers, conducts on-site evaluation of the suppliers production plant and reviews and assesses their performance and their eligibility. Based on the result of our review and assessment, our Group has compiled and maintained a list of approved suppliers. Our Group usually obtains quotations from two to three qualified suppliers from the list of approved suppliers. The performance of individual suppliers is evaluated on a regular basis, based on criteria such as quality of product or service, response to our enquiries and complaints, and delivery punctuality. Shall any one of these suppliers fail to satisfy our quality and service requirements upon our review they would be removed from the list. As at the Latest Practicable Date, we had over 300 suppliers on our list of approved suppliers.

We tend to maintain stable relationships with our suppliers to ensure that no disruption is caused to our operation as a result of any change in supplier. Our business relationship with our five largest suppliers ranged from approximately four to 11 years as at the Latest Practicable Date.

RAW MATERIALS AND ELECTRICITY

The major raw materials used in the production of our products are polypropylene resins and steel. For the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, the cost of polypropylene resins and steel accounted for approximately 63.3%, 65.5%, 63.4% and 64.6%, respectively, of our total purchase.

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our products. For polypropylene resins, we generally make bulk purchase and keep an inventory level of two to four weeks. For steel, we generally make bulk purchase per our production plan and we maintain minimal inventory. We select our suppliers from our list of approved suppliers, which comprises over 300 suppliers, and generally obtain quotations from at least two to three approved suppliers. The credit term offered by our suppliers ranges from 0 to 60 days, and payments are generally made by telegraphic transfer or bank acceptance bill.

As our raw materials are readily available, we do not enter into any long-term procurement agreements with our raw materials supplier. We had not adopted any price-locking arrangement to manage price fluctuations of our raw materials.

Electricity

Our production processes involve consumption of substantial amount of electricity and hence, an uninterrupted and stable supply of electricity is crucial to our business and operations. Considering that there has been a significant increase in demand for electricity supply in the PRC in recent years, to conserve fuel stocks and reduce energy intensity, various provinces, including Deqing County in Zhejiang province where our Huzhou Production Plant is situated, have implemented power rationing measures and power outages in various high energy-consuming industry sectors. Our Directors confirmed that the electricity consumption and production process in our Huzhou Production Plant had not been suspended or restricted at the request of the local governmental authority during the Track Record Period and up to the Latest Practicable Date. Furthermore, our Huzhou Production Plant has its own backup power system to generate power supply for maintaining its daily operation on a contingency basis if there is an electricity blackout or cutoff in the area or when we encounter any restriction in obtaining power supply from local power suppliers. Nevertheless, power outages or prolonged power shortage in electricity supply would impose an inherent risk to our business and operation, our Directors would monitor the situation and consider the need to enhance the capacity of our power supply system at the Huzhou Production Plant if necessary.

INVENTORY MANAGEMENT

Our inventory mainly includes raw materials, work-in-progress and finished products. Our procurement team, which consists of six staff members as at the Latest Practicable Date, closely monitors the cost of the raw materials and the inventory level of the raw materials to meet the production requirements, and control the cost of purchase of our raw materials.

We manage our inventory levels through ERP systems, together with our physical records, which keep moving record of our inventory levels. Our warehouse staff will also conduct physical inventory taking at our Huzhou Production Plant on a monthly basis to ensure accuracy of our inventory record and inspect physical condition of our inventory.

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Our Group's inventory level as at 31 December 2018, 2019 and 2020 and four months ended 30 April 2021 amounted to approximately RMB34.0 million, RMB51.4 million, RMB60.1 million and RMB73.9 million, respectively. For the years ended 31 December 2018, 2019 and 2020, our inventory turnover days were approximately 46 days, 64 days, 75 days and 88 days, respectively. For further details, please refer to the paragraphs headed "Financial information — Discussion on selected balance sheet items — Inventories" in this prospectus.

Raw materials

We purchase most of our raw materials mainly based on the purchase orders placed by our customers and the then inventory level of our raw materials to avoid accumulation of excessive inventories. We procure raw materials in bulk in order to negotiate for better prices from our suppliers.

As most of our products are produced based on purchase orders from our customers, our production team will determine the amount of raw materials to be utilised based on the quantity of products under the purchase orders:

- once the quantity of products to be manufactured are confirmed, our production team and our procurement team will check the availability of existing inventory and will then proceed to order the raw materials from suppliers;
- after our QAQC team has inspected the incoming raw materials, the raw materials will be warehoused and we will perform material categorisation and inventory tracking;
- a stock take is regularly performed to ensure the accuracy of stock-in and stock-out information on record. Throughout the year, our Group reviews the stocktaking records and performs inventory aging analysis to ensure that inventories are properly used and that there is no significant accumulation of aged inventories; and
- to ensure the quantity of our raw materials, we retrieve our inventory on a first-in-first out basis.

Work-in-progress and finished products

Work-in-progress refers to our semi-finished products pending further assembly. Finished products refer to the products which are readily delivered to customers. As our Group generally commences production process after receipt of purchase orders placed by the customers, there is no significant risk of obsolescence of work-in-progress and finished products. Our Group adopts weighted average approach to calculate the cost of our finished products and closely monitors the inventory level of the finished products.

QUALITY CONTROL AND QUALITY ASSURANCE

Our Group has adopted a series of quality control and quality assurance measures on the selection and testing of raw materials, conducting quality checks on work-in-progress and outsourced production, and our finished products throughout the assembling and production process to ensure the quality of our products as well as their adherence to customers' specifications. In recognition of our efforts in maintaining international standards of quality control and management, since 2015 we have been accredited with ISO14001 on environmental management systems; ISO9001 on quality management systems and OHSAS 18001/ISO45001 on occupational health and safety management. As at the Latest Practicable Date, our QAQC team comprises 41 staff members, which is led by our executive Director, Mr. Fang Gaisheng. For details of the background of Mr. Fang Gaisheng, please refer to the section headed "Directors and senior management" in this prospectus. Our QAQC team is responsible for the overall implementation of the relevant quality control measures as at the different stages of production process and our finished products, and identifying any quality control issues where our production team will address such issues.

Quality control on the incoming raw materials

All incoming raw materials are subject to inspection by our QAQC team, to ensure their conformity with the agreed specifications set out in the relevant design and prepare a report on the results of the inspection and such report will be reviewed by the head of our QAQC team. Our Group's internal guidelines require different testing and inspection process to cover aspects including appearance, size, structure and actual compatibility. Subsequently, upon discovery of any sub-standard or defective raw materials, we will follow up with the relevant suppliers for defect analysis and arrange for the return or replacement.

Quality control on the work-in-progress

The quality control personnel test the quality of the work-in-progress at various stages of the production process on a real-time basis to ensure the work-in-progress can meet the required standards and customers' specifications. If the work-in-progress are found to be defective, they will be immediately marked as "defective" and recorded by the QAQC team. The defective work-in-progress are then repaired or disposed of and are subject to failure analysis to identify the root cause of the failure and to determine what corrective actions need to be taken.

Quality control on outsourced production

Our Plastic Injection Service Providers are required to produce plastic parts of our products that meet relevant governmental and industrial standards in the PRC and overseas markets (where appropriate) or such other quality standards as agreed between our Group and our Plastic Injection

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Service Providers. The parts manufactured by our processing service providers are subject to our inspection and the Plastic Injection Service Providers are responsible for rectifying any quality defects as identified by us.

Quality control on overall quality of finished products

Our QAQC team carries out visual inspection and testing of our finished products. In respect of the visual inspection, the quality control personnel conducts random inspection on the physical appearance, level of adherence to our customers' specifications and functional testing on the quality of our products. The finished products must pass the final quality test on their functionality and physical properties including strengths and durability, which include putting our finished products through drill tests, pressing, and placing the products in various temperature range, simulating the normal circumstances in which our products will be used by our customers. The finished products that fail to meet quality standards will be subject to rework and those which meet the requisite standard will be subject to final inspection by the customers, if required.

In addition to conducting random checks on our finished products, some of our overseas customers also inspect our Huzhou Production Plant on a regular basis. Our production process and the quality of finished products have to pass their approval procedures in order to be qualified as their approved supplier.

SEASONALITY

We typically experience increased sales orders shortly before and after the Chinese New Year holidays as we generally encourage our customers to place orders with us prior to the Chinese New Year holidays, during which our Huzhou Production Plant is not in operation. On the other hand, our sales to Bradshaw Group is generally higher in the second half of a year as the demand for household cleaning tools in the United States is generally higher driven by (i) festive seasons such as Thanksgiving Day and Christmas, and (ii) home cleanings before New Year's Eve.

SALES AND MARKETING

As at the Latest Practicable Date, we had a sales and marketing team composed of one personnel who was responsible for the sales and marketing activities for the PRC market, nine personnel who were responsible for our sales and marketing activities for the overseas market and six personnel who provided the administrative and after sales support to our sales and marketing function. They are responsible for handling external liaisons with customers and suppliers. Our sales and marketing team is also involved in the processing of all sales orders, overseeing our sales progress as well as visiting our customers and liaising with them by telephones and e-mails. It is also responsible for conducting market research, coordinating with design and development team for product planning and organising marketing activities. For the years ended 31 December

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2018, 2019 and 2020 and four months ended 30 April 2021, our staff costs for our sales and marketing team and other related marketing expenses incurred amounted to approximately RMB6.5 million, RMB3.2 million, RMB2.9 million and RMB0.9 million, respectively. Our main marketing strategies include the following:

Participation in trade fairs and exhibitions

For the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, we attended five, three, one and nil trade fairs and exhibitions and incurred expenses of approximately RMB0.3 million, RMB0.2 million, RMB96,000 and nil, respectively. When our customers are satisfied with the exhibited samples, they may place orders directly at the venue. They may also follow up with our sales and marketing team after the fairs on their orders and as to whether any adjustment they would like to make on the product designs and packaging. For the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, our sales obtained from the trade fairs and exhibitions amounted to approximately RMB0.5 million, RMB1.0 million, nil and nil, respectively. Our Directors are of the view that the trade fairs and exhibitions offer an important venue for us to showcase our latest product portfolios to potential customers and to increase our exposures in the market.

Our Directors believe that regular participation in these exhibitions would allow us to show case our new products and our latest product offerings, and enable us to collect feedback and market information to facilitate our analysis on latest market trends and consumers' preference on product design and features.

Regular communications and visits to our customers

To reinforce our other marketing initiatives, our management and our sales and marketing team maintain regular visits to major customers in the United States and Europe to obtain their feedbacks on our products, understand their requirements and expectations on our products, to obtain latest market trend, which are important for us to maintain and to consolidate our business relationship with these major customers, obtain purchase orders from them and to collect useful information for our product and business planning.

Research on customers' purchase pattern and latest market trend

Our sales and marketing team also analyses and assesses the historical purchase pattern of our customers to project product demand for the next season from time to time, and report to our executive Directors to formulate the corresponding production and marketing plans. Our product design and development team also work together with our sales and marketing team to follow closely with market trends in order to maintain a strong consumer demand. Prior to the Track Record Period, for the purpose of gauging consumer demand for our products, our Group

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established a joint venture, Home Laundry, for engaging in the reselling of household necessity products purchased from our Group to its customers through online shop in the United Kingdom. However, considering that (i) Home Laundry only generated minimal revenue from its business operations; (ii) our Group has established BHP UK to handle the sale of our products to our customers located in the United Kingdom; and (iii) the sale of our products through online shop in the United Kingdom is no longer in line with our then business strategies, our Directors decided to divest from Home Laundry for effective allocation of internal resources. For further details of Home Laundry, please refer to paragraphs headed “History, Reorganisation and corporate structure — Divestment of interests in a jointly-controlled entity” in this prospectus.

COMPETITION

According to the CIC Report, the continuous increase of total number of households in developed countries and the rising immigrant population in developed countries, together with the continuous rise of household income levels in those developed countries, have driven demand for household necessity products in both local and foreign markets. Moreover, the PRC government’s “Belt and Road” Initiative, which aims to help build infrastructure in participating countries and encourage international trade, is expected to have positive impact on the PRC’s manufacturing industry in general.

Laundry product market

According to the CIC Report, the PRC is the largest manufacturing and consumption country of drying racks in the world. As at the end of 2020, there are approximately 600 drying rack manufacturers in the PRC, among which around 100 manufacturers also engage in export business. In term of exports revenue in 2020, the top five players in the drying rack manufacturing market for export accounted for approximately 32.6% of market share in the PRC, and our Group ranked the second with a market share of 6.6%.

Household cleaning tool market

According to the CIC Report, the cleaning tool manufacturing market in the PRC is highly fragmented, with approximately 8,000 participants. Among these companies, more than 2,000 cleaning tools manufactures also engage in export business. The top five players in the PRC’s household cleaning tool market amounted for approximately 2.7% of the total market in terms of export revenue in 2020.

In view of (i) the anticipated growth consumption level in developed countries; (ii) the increasing demands on premium household necessity products; and (iii) the steady growth of population and increasing household expenditure, the demand for laundry products and household cleaning tools is expected to grow in the future.

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EMPLOYEES

As at the Latest Practicable Date, we had a total of 780 full time employees based in the PRC and the United Kingdom. The following table sets forth the breakdown of our employees in the PRC by function as at the Latest Practicable Date:

| Functions | Number of employees |
|------------------------------------|----------------------------|
| Directors and senior management | 5 |
| Administration and finance | 8 |
| Product design and development | 11 |
| Procurement | 6 |
| Production | 599 |
| Warehouse and inventory management | 67 |
| Quality control | 41 |
| Sales and marketing | 16 |
| Others <i>(Note)</i> | 25 |
| Total | 778 |

Note: Others include security guards, cleaning staff and other supporting staff.

As at the Latest Practicable Date, we had two employees serving at BHP UK in the United Kingdom, both of whom were local workers and were responsible for our sales and marketing functions in the United Kingdom.

Remuneration

Our employees are generally remunerated by way of fixed salary, discretionary bonuses and allowances. Our Group adopts an appraisal system for our employees and considers the appraisal results of individual employees when conducting their salary reviews, making promotion decisions and determining the amount of bonuses. Our employees are also entitled to performance-based bonus, paid leave and various subsidies.

Relationship with employees and recruitment policies

Our Directors believe that our management policies, working environment, employee development opportunities and employee benefits are important to maintain good employer-employee relations and attract talents. Our Directors confirm that during the Track

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Record Period and up to the Latest Practicable Date, we had not encountered any difficulty in the recruitment and retention of staff for our operation or experienced any disruption in our operation as a result of labour disputes with our employees in all material respects.

We generally recruit our employees in open market through posting our vacancies in newspapers and online. We select suitable applicants based on a number of factors such as their working experience, educational background and vacancy needs.

Employee Training

In order to strengthen the overall competitiveness of our workforce, to attract and retain talents and to strengthen their knowledge and skills, we place strong emphasis on training employees. We provide trainings to our employees across different functions, including induction training for new employees, functional training on necessary skills and knowledge of respective work areas and on-the-job trainings to enhance our production labour on the safety measures when performing their work.

Social Welfare Scheme and Housing Provident Funds

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), our major operating PRC subsidiary, namely BHP Zhejiang, is required to make social insurance fund contributions for its employees in the PRC, which shall cover basic pension insurance, basic medical insurance, maternity, worker related injury insurance and unemployment insurance. BHP Zhejiang is also required under the Regulations on Management of Housing Provident Fund* (《住房公積金管理條例》) to deposit housing provident funds to its employees in the PRC. For further details, please refer to the paragraph headed “Regulatory overview — Laws and regulations relating to labour and social security” in this prospectus.

Despatched staff

Pursuant to the Interim Provisions on Labour Dispatch* (《勞務派遣暫行規定》) which came into effect on 1 March 2014, if the number of despatched staff members utilised by an employer exceeds 10% of the total number of its workers prior to the effective date of these Provisions, such employer shall develop a scheme for employment adjustments to reduce the proportion to the specified level within two years from the effective date of these Provisions. The number of despatched employees engaged by us had exceeded the regulatory threshold of 10% of the total number of their respective workers during the Track Record Period until April 2019. For more details, please refer to the paragraphs headed “Regulatory overview — Laws and regulations relating to labour and social security” in this prospectus.

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To rectify the situation, we had reduced the number of despatched staff engaged by us below the regulatory threshold since April 2019. Our Directors confirmed that our Group would not have incurred any significant staff costs if the work performed by the despatched staff in excess of the 10% regulatory threshold was performed by our own staff and thus, the impact on our Group's overall cost structure and profitability going forward after replacing certain despatched staff by our direct employees for compliance with the relevant law is not significant.

ENVIRONMENTAL PROTECTION

Manufacturing enterprises, like our Group, are subject to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) and other relevant environmental protection laws and regulations. For further details, please refer to the paragraphs headed “Regulatory overview — Laws and regulations relating to environmental protection” in this prospectus.

During the production process of our products, we generate noise, industrial dust, water and solid waste pollutants which exposes us to environmental-related risks. We have implemented environmental management measures to manage and review emission of wastage. For details, please refer to paragraphs headed “Our environmental, social and governance policy” in this section.

Our Group had engaged an external inspection and assessment institution to identify and assess our level of compliance in respect of environmental protection covering emission of wastewater, noise control and air pollution control in December 2018, December 2019 and October 2020. With the data set out in the inspection report, our Directors note that the levels of wastewater, noise and air pollutants incurred in the course of our production are within the range under the relevant laws and regulations in the PRC. We are accredited with ISO14001 certification, in respect of our environmental management system in production and design of our products and thus, our Directors take the view that our environmental management system is effective and comply with the relevant national standard. As advised by our PRC Legal Advisers, the above institution is qualified to carry out inspection and assessment. In view of the importance of maintaining high standard of environmental protection compliance, our Directors intend to continue to engage external inspection and assessment institutions to identify our environmental-related risks and assess the effectiveness of our environmental management system on a regular basis.

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, our Group's business, strategy and financial performance have not been materially and adversely affected by any actual or potential impacts of environmental-related risks. Going forward, we will continue to allocate adequate resources and efforts to uphold and improve our environmental protection measures in order to reduce the inherent environmental-related risks.

Pollutant discharge permit

We obtained a pollutant discharge permit* (排污許可證) with effect from 28 November 2012 to 27 November 2017, which was subject to renewal for every three or five years. Pursuant to the confirmation letters issued by Deqing County Environmental Protection Bureau* (德清縣環境保護局) which was a competent authority as confirmed by our PRC Legal Advisers, (now known as Huzhou City Ecology and Environment Bureau, Deqing Branch* (湖州市生態環境局德清分局)) (the “**Ecology and Environment Bureau**”) dated 23 January 2018 and 25 June 2018, respectively, it was confirmed that (i) we had submitted an application for the relevant pollutant discharge permit and based on the Classification Administration Catalog of Discharge Permits of Stationary Pollution Sources (2017 Version)* (《固定污染源排污許可分類管理名錄(2017年版)》); (ii) the implementation period of pollutant discharge permit for metal surface treatment and heat processing industry* (金屬表面處理及熱處理加工行業) would be 2020; and (iii) our Group belongs to this catalogue and hence our pollutant discharge permit needed no extension before 2020. Based on the Classification Administration Catalog of Discharge Permits of Stationary Pollution Sources (2019 Version)* (《固定污染源排污許可分類管理名錄 (2019年版)》) (the “**Classification Administration List 2019**”), all manufacturing companies will be reclassified and re-registered according to the amount of pollutant emission of the companies and some companies with minor environmental impact will be exempt from the requirement of obtaining pollutant discharge permit and will only be required to register with corresponding local ecology and environment bureau. Pursuant to the reply from the Ecology and Environment Bureau, the reclassification and re-registration process has started in May 2020. As advised by our PRC Legal Advisers, BHP Zhejiang had been reclassified by the Ecology and Environment Bureau as a company with minor environmental impact under the Classification Administration List 2019 and is exempted from the requirement of obtaining pollutant discharge permit. BHP Zhejiang has registered with the Ecology and Environment Bureau and has obtained a stationary pollutant sources discharge registration receipt* (固定污染源排污登記回執) which is effective from 8 July 2020 to 7 July 2025.

Based on the confirmation letter issued by the Ecology and Environment Bureau dated 1 July 2021, it is confirmed that we had not been subject to any administration punishment for violation of any environmental law and regulations in the PRC during the Track Record Period. As confirmed by our PRC Legal Advisers, the Ecology and Environment Bureau is a competent authority in charge of environmental protection in Deqing County. The Ecology and Environment Bureau, being the local supervising body for environmental protection, has the power and authority to issue the aforementioned confirmation letter. As confirmed by our PRC Legal Advisers, our Group had complied with the PRC environmental law and regulations in all material respect during the Track Record Period and up to the Latest Practicable Date.

OUR ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Our Directors recognise environmental protection as an important social responsibility of our Group. Hence, we adhere to the environmental, social and governance (“ESG”) management direction that targets to (i) monitor the environmental impact of our business operations, (ii) mitigate climate-related risks such as global warming; and (iii) ensure that our operations are in compliance with the relevant environmental requirements pursuant to the PRC laws and regulations.

Identification, management and assessment approaches

Our Directors consider that establishing and implementing sound ESG principles and practices will help increase the investment value of an enterprise and provide long-term returns to our stakeholders. Our Board is principally responsible for overseeing the formulation and reporting of our ESG direction and strategies, determining the ESG-related risks, and monitoring and reviewing our ESG performances. Furthermore, it also closely follows the latest ESG-related laws and regulations and correspondingly updating our ESG measures to ensure that we comply with the latest regulatory laws and regulations. Upon the Listing, we will establish the ESG Management Committee to support our Board in formulating and implementing the ESG Policy and collecting ESG data for preparing for the ESG report.

Our Board will adopt the following approaches to identify, assess and manage material ESG issues:

Identification: Our Directors discuss with key stakeholders, including our major customers, major suppliers, management team and employees, the ESG issues and collect their views and opinions on our ESG measures and practices, which, help us better identify and prioritise the ESG issues and risks inherent in our business operations and formulate effective ESG measures to mitigate those risks. Our Directors believe that this open dialogue with stakeholders plays a crucial role in maintaining our business sustainability.

Management: Attributed to the above efforts, we have implemented ESG measures that provide guidelines in managing our ESG issues. In this connection, our Board will review ESG issues arising from our business operations including climate-related issues when reviewing our ESG measures, major plans of actions, risk management policies, annual budget in implementing these ESG measures and our business plans as well as setting our performance objectives.

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Assessment: Apart from assessing the performance of our ESG measures through discussion among our Directors and our stakeholders, our Board would engage Independent Third Party inspection and assessment institutions to identify and assess our level of compliance in respect of environmental protection covering emission of wastewater, noise control and air pollution control and climate changes.

To comply with the Stock Exchange's reporting requirements on ESG following the Listing, we will formulate an ESG policy (the “**ESG Policy**”) following the Listing which will outline, among others, (a) the appropriate risk governance on ESG matters; (b) ESG strategy formation procedures; (c) ESG risk management and monitoring; and (d) identification of key performance indicators (“**KPIs**”) and the relevant measurements. The ESG Policy will be formulated in accordance with the standards of Appendix 27 (“**ESG Reporting Guide**”) to the Listing Rules and be reviewed on an annual basis to ensure that it remains relevant and appropriate to the needs of our operation.

Actual and potential impact of environmental and climate-related risks on our businesses, strategies and financial performance

Our Directors recognise the adverse impact of global climate change, which will be intensified by continued emission of greenhouse gases, to global economic and social development and thus, our Directors exert their efforts on environmental protection and mitigation of climate-related risks in operating our business.

We may be exposed to possible financial loss and non-financial detriments arising from environmental and climate-related risks. These risks can be categorised into (a) transition risks: being the risks arising from compliance with the applicable environmental laws and regulations and the stringent environmental protection standards; and (b) physical damages: being the damages arising from acute weather-related events and longer-term chronic shifts in climate patterns.

Transition risks

Our production activities in the PRC are subject to the national environmental laws and regulations in the PRC as well as the environmental regulations and standards promulgated by the relevant local government authorities. Please see the section headed “Regulatory overview — Laws and regulations relating to environmental protection” in this prospectus for further information. In particular, the production of some of our products involves the use of polymer, polypropylene resins which come from petroleum origin and their wastes cannot be biodegraded, although it can be degradable with chemical additives to help speeding up the rate of degradation and different kinds of chemical materials and the production process of which also generates noise, industrial dust, water and solid waste pollutants. If we fail to comply with any of the applicable environmental protection laws and regulations and standards, we may be subject to fine or penalty

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or mandatory suspension of our operation. However, the laws and regulations on environmental protection may change from time to time and any change may not only increase our cost of compliance and place financial burden on our operations but also increase the litigation risks in our operations. For detail, please see the section headed “Risk Factors — Risks relating to our business — We are subject to stringent environmental and workplace safety laws and regulations, and we may incur substantial costs in complying with such laws and regulations and be subject to potential liability” in this prospectus. Such regulatory developments, together with the existing laws, regulations and expectations, may have material impacts on our production activities and thus present “transition” risks to us, which may affect our operation. Furthermore, if our Group is in breach of any environmental laws and regulations, or faces any threatened claim in this respect, it will adversely affect our reputation and our creditability. It may also adversely affect our business performance, reduce our competitiveness to new investors and damage our reputation in the industry. Therefore, we have adopted a series of measures to minimise the risks of environment pollution and non-compliance with the applicable environmental laws and regulations. For details, please refer to the section headed “Our environmental policies”.

Physical risks

With climate change, the global temperature may increase, causing the higher consumption of the electricity resulting in, among others, a rise in the cost of raw materials. Further, the global temperature increase may also result in more unpredictable weather conditions such as frequent and severe occurrences of typhoons, hurricanes, droughts, flooding and increased rainfall, etc.; Such weather conditions are anticipated to cause disruption to transport services, which may in turn result in delay of delivery of raw materials and our products. In view of the possible increase in the cost of raw materials and the disruption of transportation, our supply chain may be adversely affected. Save for the above-mentioned possible disruption to the supply of raw materials, our Directors consider that the global temperature increase will not have a significant impact on our Group’s production process. Our Production Plant for production of all our products is located in Huzhou City. The average temperature of Huzhou City is 13.1°C to 20.5°C. During winter seasons, the average temperature of Huzhou City is 2.1°C to 9.1°C. During summer seasons, the average temperature of Huzhou City is 23.9°C to 30.9°C. Given the range of average temperature of Huzhou City, which is relatively moderate, even if there is a slight increase in the average global temperature, our production process would not be severely affected.

Save for the foregoing and up to the Latest Practicable Date, our Directors are not aware of any actual climate-related risks or damages that could negatively impact our businesses, strategies and financial performance.

Environmental and climate-related opportunities

Our Board is responsible for assessing and managing environmental and climate-related opportunities in the following respects:-

- (i) *Energy source:* To enhance our production efficiency and achieve cost-saving, it is our policy to purchase and deploy energy saving machinery and explore a broader type of materials in carrying out the production of our products and to adopt water and waste management policies to curb or reduce emissions. For instance, we use LED lighting system in place of traditional lighting system in our Huzhou Production Plant. We also advocate the concept of green office and encourage our staff members to use electronic records to gradually replace paper-based records. For details of our measures to achieve environmental protection and cost saving, please see the paragraph headed “Our environmental, social and governance — Our environmental policies” in this section.
- (ii) *Consumer preference:* Driven by increased global awareness of climate change, technological advances and health concerns, protecting environment has become a priority for consumers. According to the CIC Report, electrically powered laundry dryers are usually more energy-draining than televisions, refrigerators and washers. Our Directors believe that in light of collective global concern over the global environment, an increasing number of consumers will choose to purchase rotary drying racks, foldable/upright drying racks and other types of drying racks to replace their electric laundry dryers so as to reduce their energy use as in order to reduce the amount of toxic fumes and thereby conserving the earth’s natural resources.
- (iii) *Developing reusable products:* There has been a heightened level of awareness of the fact that overconsumption of resources is a leading contributor to climate change. With that in mind, many consumers prefer quality household necessity products that can be reused for a long period of time. We place great emphasis on the quality of our products and they must meet the stringent requirements of our customers and comply with the applicable safety and certification standards. As such, our Directors believe that the demand for our products, which are reusable and of good quality, will also increase. Our Directors believe that this shift to sustainable consumer habits will have a positive and long-term impact on our Group. In response to the opportunities presented, our Group will continue to develop and manufacture a wide range of drying racks and continue to manufacture long lasting quality products to fit the various needs of consumers.

Our environmental policies

Our environmental and climate-related risk assessment policy

To identify, assess and manage environmental and climate-related risks, we have adopted an assessment policy, details of which are as follows:

- we had engaged an Independent Third-Party inspection and assessment institution to identify and assess the level of compliance in respect of environmental protection covering emission of wastewater, noise control and air pollution control and climate changes in December 2018, December 2019 and October 2020. With the data set out in the inspection reports, our Directors note that the wastewater, noise and air pollutants incurred in the course of our production is within the range under the relevant laws and regulations in the PRC. In view of the importance of maintaining high standard of environmental protection compliance, going forward, we will continue to engage the inspection and assessment institution to identify and assess the environmental-related risks on a yearly basis;
- our administration department will keep a periodical record on the type of pollutants and the quantity of the pollutants to ensure that both of them are within the scope of relevant laws and regulation. If the quantity of our Group's pollutants emitted in the course of production in our Production Plant has exceeded the amount permitted under the relevant laws and regulations, this indicates that our environmental measures are not adequate;
- our administration department is also responsible for ensuring that the treatment plants for reducing pollutants in wastewater can properly function;
- our Discharge of Urban Sewage into the Drainage Network Permit* (城鎮污水排入排水管網許可證) is subject to renewal for every five years, depending on requirements set out by the Urban Management Bureau of Deqing County* (德清縣城市管理局) whereby the environmental-related risks shall have been identified and mitigated before we can apply for the renewal; and
- Upon the Listing, we will establish the ESG Management Committee, which will be led by Mr. Fang, our executive Director, to support our Board in formulating and implementing the ESG Policy and collecting ESG data for the purpose of preparing for the ESG report following the Listing. The ESG Management Committee will assist our Board to oversee and monitor the implementation of the ESG Policy and measures agreed by our Board and will report to the Board regularly. Our Board oversees the performance of our Group in achieving the ESG targets and objectives. The ESG

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Management Committee will also investigate the reasons for any deviation from the targets and objectives and the Board will revise our ESG strategy as appropriate when significant variance from the target is identified.

Our environmental policies

Our Directors consider that the major environmental risks of our operations arise from (i) dangerous waste, (ii) waste water, (iii) noise and (iv) air pollution. To mitigate the major environmental risks of our operations and to ensure that our production processes are in full compliance with the applicable PRC environmental protection laws and regulations, we have put in place a set of environmental policy that targets to manage the environmental impact of our business operation as follows:

- (a) We adopted a series of measures to minimise the risk of environment pollution associated with our production process. During the production process of our products, we generate noise, industrial dust, water and solid waste pollutants. Our production team is responsible for ensuring proper management of such pollutants. Set forth below are the major governance measures towards our major environmental related risks:

- *Dangerous waste treatment.* Our Group has engaged an external party for disposal of dangerous waste since 2017. As advised by our PRC Legal Advisers, such external party has obtained the relevant dangerous waste treatment permit and is a qualified company for dangerous waste treatment.

Hazardous wastes generated from our Group's production processes, such as welding slag, plastic powder slag and hydraulic oil waste, are properly segregated, collected and centrally stored before it passed to the relevant party for disposal. Designated collection bins with clear labels are placed at specific areas for effective separation.

Since obtaining more detailed information on the types and volume of hazardous and non-hazardous wastes requires time for extensive assessment and analysis, our Directors will provide such information in our environmental, social and governance report within specified time after Listing in compliance with the requirements under the Listing Rules and Appendix 27 thereto;

- *Waste water treatment.* Our Group uses treatment plants to reduce pollutants in the waste water generated during the production process before being discharged.

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Some of our water pollutants generated from our production process are reused by us after it is processed in our sewage treatment plant before being discharged to the relevant treatment plant further processing. We also closely monitor and control the wastewater discharged from our sewage treatment plant in accordance with the “Integrated Wastewater Discharge Standard” (GB8978-1996) issued by the Ministry of Ecology and Environment;

- *Noise control.* Noise may be generated during the operation of the production equipment. We minimise our noise emission by purchasing production equipment that generates a lower level of noise and by constructing sound proofing walls to the factory building, installing sound proofed windows and doors. Our Group adopts soundproofing and vibration reduction measures to reduce the level of noise emitted from our machinery and equipment; and
- *Air pollution control.* Our Group uses dust screens and covers to lower the level of pollutant and other particles generated from the production process.

In October 2020, our Group engaged an Independent Third-Party inspection and assessment institution to assess and issue an inspection report on the level of compliance in respect of environmental protection covering emission of wastewater, noise control and air pollution control (the “**Environmental Compliance Report**”).

With the data set out in the Environmental Compliance Report, our Directors note that the air pollutants incurred in the course of our Group’s production was within the range specified under the relevant laws and regulations in the PRC. In view of the importance of maintaining high standard of environmental protection compliance, our Directors intend to engage the inspection and assessment institution to identify and assess the environmental-related risks on a yearly basis.

- (b) It is the general aim of our policy to minimise the impact of our production process on the environment by efficient waste management and where possible, the use of renewable resources. We place importance on water consumption management and we recycle and reuse some of our industrial water for production; and
- (c) We engaged an external inspection institution to assess our environmental impact management system. The external inspection institution reported that the gas, wastewater and noise emission levels generated by the Company meet relevant local and national standards in the PRC.

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For the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, the costs incurred by our Group for compliance with the relevant environmental protection laws and regulations were approximately RMB0.4 million, RMB0.4 million, RMB0.6 million and RMB0.2 million, respectively.

Emission targets

The emission targets of our Group include (i) 100% compliance rate on waste disposal, water discharge, air emission and noise generation; (ii) zero complaint; and (iii) zero chemical leakage. Our Group will continue to monitor emission of wastewater, noise control and air pollution control regularly and our administration department will continue to keep record of pollutant emissions.

During the Track Record Period, all hazardous and non-hazardous wastes of our Group were disposed of in accordance with the applicable rules and requirements. As advised by our PRC Legal Advisers, we have not been subject to any punishment as a result of any breach of the applicable environmental laws and regulations in the PRC and we have been in compliance with applicable environmental laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

Our environmental protection performance

In pursuit of our social responsibility in environmental protection and sustainable development of our business operations, we adhere to various environmental protection initiatives, such as efficiency in the use of resources, emissions and water and energy consumption. The table below sets forth our environmental protection performance for the year ended 31 December 2020 and the four months ended 30 April 2021:

| | <u>For the year ended 31 December 2020</u> | <u>For the four months ended 30 April 2021</u> | <u>Permitted discharge levels based on the prevailing standards in PRC</u> |
|--|--|--|--|
| Air pollutant and waste gas | | | |
| Sulfur dioxide intensity (mg/m ³) | Minimal | Minimal | ≤200 |
| Nitrogen oxides intensity (mg/m ³) | <26 | <26 | ≤300 |
| Wastewater | | | |
| Chemical oxygen demand (mg/L) | <75 | <75 | ≤500 |
| Water consumption | | | |
| Total water consumption (m ³) | 70,733 | 15,407 | N/A |
| Energy consumption | | | |
| Total energy consumption (kwh) | 8.2 million | 2.8 million | N/A |

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Our social policies

During the Track Record Period, our Group demonstrated our commitment to our corporate social responsibilities. We have put in place a set of social policies to promote health and safety of our employees. For details, please refer to the paragraph headed “Employees” in this section.

- I. We have a policy of providing equal opportunities in employment and career development regardless of gender and age.

Diversity of workforce

The following sets out the total workforce by gender of our Group as at 30 April 2021:

| | <u>Number of employees</u> | <u>Percentage</u> |
|--------|--------------------------------|-------------------|
| Male | 389 | 52% |
| Female | 360 | 48% |

The following sets out the total workforce by age group of our Group as at 30 April 2021:

| | <u>Number of employees</u> | <u>Percentage</u> |
|------------------|--------------------------------|-------------------|
| Aged 30 or below | 158 | 21.0% |
| Aged 31-40 | 242 | 32.3% |
| Aged 41-50 | 237 | 31.6% |
| Aged 51 or above | 112 | 15.0% |

- II. We have strictly abided by the requirements of the Labour Law of the PRC (《中華人民共和國勞動法》).

It is our policy and we also require our suppliers to avoid any hiring of child or forced labour in our business operations and firmly insist on a zero tolerance approach to child or forced labour in any form. The human resources department of our Company is not allowed to hire child labour, who are aged under 16, and junior workers, who are aged between 16 and 18. Applicants are required to report their identity by providing their identity cards copy as a part of engagement procedures. Our Directors are of the view that through checking of identity card during the engagement process, the possibility of recruiting child labour is minimised.

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During the Track Record Period and up to the Latest Practicable Date, our Directors were not aware of any non-compliance or threatened non-compliance with any laws or regulations relating to child or forced labour arising from or in the course of our operations in the PRC. If our Group is susceptible to threatened claims or allegations of any child or forced labour arising from our business operations, our human resources department will commence immediate investigation and report the matter to the local labour authority in the first instance.

- III. We provided various functions of trainings to our employees on safe use of machinery and performing their work, such as induction training for new employees and on-the-job trainings.

The following sets out the number and percentage of employees trained by gender for the four months ended 30 April 2021:

| | <u>Number of trained employees</u> | <u>Percentage of employees being trained</u> |
|--------|--|--|
| Male | 389 | 52% |
| Female | 358 | 48% |

The following sets out the number and percentage of employees trained at various work levels as at 30 April 2021:

| | <u>Number of trained employees</u> | <u>Percentage of employees being trained</u> |
|--|--|--|
| Directors and Senior Management | | |
| — Male | 4 | 0.5% |
| — Female | 1 | 0.1% |
| Middle Management | | |
| — Male | 13 | 1.8% |
| — Female | 3 | 0.4% |
| General staff | | |
| — Male | 372 | 49.8% |
| — Female | 354 | 47.4% |

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Our governance policies

Our Group strictly complies with the Anti-Money Laundering Law of the PRC (《中華人民共和國反洗錢法》). We have established the conflict of interest declaration policy, which includes the definition of conflict of interest and reporting procedures and has been circulated to our employees for compliance. In addition, we required our Directors and senior management to complete a conflict of interest declaration form in a timely manner and to report to the relevant personnel immediately in the event of a conflict of interest. During the Track Record Period and up to the Latest Practicable Date, there was no legal proceedings regarding corrupt practices brought against us or any of our directors and employees.

OCCUPATIONAL HEALTH AND SAFETY

Our operations are subject to regulatory requirements imposed by the PRC government with regard to employees' health and safety. For details, please refer to the paragraphs headed "Regulatory overview — Laws and regulations relating to production safety" in this prospectus. We regard occupational health and safety as one of our important social responsibilities. We are committed to providing our employees with a safe and healthy working environment. In this connection, we have devised an occupational safety management system covering the entire production process of our products at our Huzhou Production Plant with which all of our employees are required to comply. We regularly inspect our Huzhou Production Plant in order to ensure that its facilities are safe for use. We also organise workplace safety training for our employees on a regular basis and arrange personnel to supervise different stages of our production process so as to promote workplace safety.

On the other hand, owing to the nature of our business, the production process of our products would inevitably create noise, industrial dusts, water and solid waste pollutants and other industrial chemicals which may affect the health of our workers if the production process is not conducted following our safety management system. We had engaged an external inspection and assessment institution to identify and assess the level of compliance in respect of our safety management system and our level of compliance of the relevant occupational health safety laws and regulations in September 2018 and based on the assessment report, we had passed all relevant assessments and save and except that we are reminded to ensure that our workers are required to wear anti-noise earplugs. We are accredited with OHSAS 18001 certification on our occupational health and safety management system in the production and design of our products.

In view of the spread of the COVID-19 in the PRC since December 2019, as part of our Group's risk management regarding the COVID-19 pandemic, in order to minimise the risk of contagion among our employees and to mitigate the adverse impact of the COVID-19 pandemic

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that may cause to our business and operations, we had implemented the following preventive measures to monitor the health conditions of our workers and maintain a hygienic working environment inside our Huzhou Production Plant:

- Ensuring that we have sufficient stock of personal protective equipment, hand sanitiser and disinfection products, etc.;
- Requiring all employees to wear surgical masks at all times in our Huzhou Production Plant;
- Requesting employees to avoid visiting areas with serious outbreak of COVID-19;
- Forbidding employees who have fever, cough, fatigue, trouble breathing or any respiratory disease symptoms from entering into our Huzhou Production Plant and requiring such employees to see doctors;
- Taking temperature of all employees and keeping a register of the temperature taken before they are allowed to enter into our Huzhou Production Plant and keep records on the attendance of our employees;
- Forbidding communal meals, social gathering and celebration events; and
- Carrying out disinfection work inside our Huzhou Production Plant daily.

During the Track Record Period and up to the Latest Practicable Date, our Group did not experience any accidents or claims for personal or property damage that, individually or in aggregate, had a material effect on our Group's financial condition and results of operations. As confirmed by our PRC Legal Advisers, our Group had complied with the applicable national and local safety laws and regulations in all material respects during the Track Record Period, and the relevant PRC authorities had not imposed any material sanctions or penalty on us for incidents of non-compliance of any safety laws or regulations in the PRC. Going forward, we will continue to allocate adequate resources and efforts to uphold and improve our safety management in order to reduce the inherent risks related to safety issues.

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RECOGNITIONS AND CERTIFICATIONS

As 31 December 2020, our Group had the following major certifications:

| Certification/ accreditations | Current version | Issuing authority/institution | Year first obtained | Expiry date for current certificate |
|----------------------------------|-----------------|---|------------------------|--|
| ISO14001 | ISO14001:2015 | China United Certification Center (Beijing) Co., Ltd. | 2015 | 17 January 2024 |
| OHSAS18001/ ISO45001 | ISO45001:2018 | China United Certification Center (Beijing) Co., Ltd. | 2015 | 17 January 2024 |
| ISO9001 | ISO9001:2015 | China United Certification Center (Beijing) Co., Ltd. | 2015 | 17 January 2024 |

| Recognition | Issuing authority/institution | Year obtained |
|---|--|---------------|
| Advanced Enterprise in Foreign Economic and Technological Cooperation* (對外經濟技術合作先進企業) | Deqing County People's Government* (德清縣人民政府) | 2011 |
| Advanced Export Enterprise of Autonomous Operation* (自營出口先進企業) | Deqing County People's Government* (德清縣人民政府) | 2012 |
| Advanced Import and Export Enterprise of Autonomous Operation* (自營進出口先進企業) | Deqing County People's Government* (德清縣人民政府) | 2013 |
| Key Enterprise in Huzhou* (湖州市重點骨幹企業) | Huzhou Municipal People's Government* (湖州市人民政府) | 2013 |
| Economic Development Step Up Award* (經濟發展上台階獎) | Zhejiang Deqing Economic Development Zone (High and New Zone) Administrative Committee* (浙江德清經濟開發 區(高新區)管理委員會) | 2016 |
| Representative Enterprise in Deqing County* (德清縣示範企業工會) | Deqing County Federation of Trade Union* (德清縣總工會) | 2017 |

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PROPERTIES

Owned properties

The following table summarises the information regarding our owned property in the PRC.

| Location | Description and tenure | Total site floor area and gross floor area | Usage by our Group | Land use right expiry date |
|--|---|---|---------------------------------------|---|
| No. 378 Guangming Street, Fuxi Road, Deqing County, Huzhou City, Zhejiang Province, PRC* (中國浙江省湖州市德清縣阜溪街道光明街378號) | The property comprises two parcels of land with various buildings and structures completed between 2010 and 2019 erected thereon. <i>(Notes 1 and 2)</i> The property mainly includes workshops, warehouses and dormitory. | A total site area of approximately 55,621.47 sq.m. and a total gross floor area of 58,441.03 sq.m. <i>(Notes 1 and 2)</i> | Huzhou Production Plant | One parcel of land will expire on 6 May 2059 and the other on 14 October 2059 |

Notes:

- Pursuant to a Real Estate Title Certificate – Zhe (2018) Deqing County Real Estate Title No. 0012570* (浙(2018)德清縣不動產權第0012570號不動產權證) dated 16 July 2018, a parcel of land use rights of the property with a total site area of approximately 15,654.84 sq.m and the buildings with a total gross floor area of approximately 12,785.60 sq.m. have been granted to the Company for industrial use for a term expiring on 14 October 2059.
- Pursuant to a Real Estate Title Certificate – Zhe (2019) Deqing County Real Estate Title No. 0014222* (浙(2019)德清縣不動產權第0014222號不動產權證) dated 8 August 2019, a parcel of land use rights of the property with a total site area of approximately 39,966.63 sq.m and the buildings with a total gross floor area of approximately 45,655.43 sq.m. have been granted to the Company for industrial use for a term expiring on 6 May 2059.

As advised by our PRC Legal Advisers, as at the Latest Practicable Date, we had obtained the relevant certificates and permits necessary for, and legally owned, the properties as mentioned above.

Leased properties

Details of the property we leased as at the Latest Practicable Date are set out as follows:

| Address of the property | Landlord | Use of property | Key terms of the lease agreement |
|--|-------------------------|-----------------|--|
| Ground Floor, Nicholson House, Whitchurch Business Park, Shakespeare Way, Whitchurch, Shropshire, the United Kingdom | Independent Third Party | Office | One year commencing on 14 December 2018 (which is renewable each year) |

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| Address of the property | Landlord | Use of property | Key terms of the lease agreement |
|---|-------------------------|-----------------|---|
| Factory no. 4, No. 292 Chang'an Street, Deqing County, Huzhou City, Zhejiang Province, PRC* (中國浙江省湖州市德清縣長安街292號廠區內4號廠房) | Independent Third Party | Warehouse | Six months commencing on 1 December 2020 (which is renewable by notice) |

Our property rentals and related expenses in relation to the property leased by us were approximately RMB3,750, RMB90,000, RMB182,000 and RMB297,000, respectively, for the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, respectively.

INSURANCE

Our Group currently maintains social security insurance for our employees and property insurance for our Huzhou Production Plant. Our Directors confirm that our Group's insurance coverage is adequate for our operations and is in line with industry practice. We also maintain insurance for trade receivables, to secure our financial status in case of bad debts.

For the years ended 31 December 2018, 2019 and 2020 and four months ended 30 April 2021, our total insurance expenses amounted to approximately RMB1.2 million, RMB1.0 million, RMB1.3 million and RMB0.7 million, respectively. During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we had not made, or been the subject of, any material insurance claim or product liability claims.

INTELLECTUAL PROPERTY

Our know-how in the production and assembling process is important to our success. We have registered certain trademarks, patents, copyright and domain names. For details, please refer to the paragraphs headed "B. Further information about our business — 2. Intellectual property rights" in Appendix V to this prospectus.

Measures for protection of intellectual property

We have placed a great emphasis in protecting our customers' intellectual property and our own intellectual property. During our product development process, our product design and development team will conduct online search of intellectual property to ensure that the proposed product design would not infringe any design and patents of our customers' products. After the completion of the product development, our product design and development team will, if necessary, apply for a patent for our own products. In addition, our Group requires our employees to undertake confidentiality obligations in respect of our product design and development, including the materials used.

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Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our own-brand products did not infringe the design and patents of our customers' products.

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, our Group had not engaged in or been threatened with any claim for infringement of any intellectual property rights which would have a material financial and operational impact on us, either as claimant or as respondent.

LICENCES, APPROVALS AND PERMITS

As at the Latest Practicable Date, our PRC Legal Advisers confirmed that our PRC subsidiary had obtained the requisite governmental licences, permits and certifications and renewal which are necessary for its respective operations, details of which are as below:

| Name of licence/approval/permit | Granting authority | Date of first grant | Date of last grant | Expiry date |
|---|---|---------------------|--------------------|----------------------------------|
| Zhejiang Pollution Discharge Permit* (浙江省排污許可證) | Environmental Protection Bureau of Deqing County* (德清縣環境保護局) | 28 November 2012 | 28 November 2012 | 27 November 2017 <i>(Note 1)</i> |
| Stationary pollutant sources discharge registration receipt* (固定污染源排污登記回執) | Huzhou City Ecology and Environment Bureau, Deqing Branch* (湖州市生態環境局德清分局) | 8 April 2020 | 8 July 2020 | 7 July 2025 |
| Urban Drainage Permit* (城市排水許可證) | Housing and Urban-rural Development Bureau of Deqing County* (德清縣住房和城鄉建設局) | 11 May 2015 | 11 May 2015 | 10 May 2020 <i>(Note 2)</i> |
| Discharge of Urban Sewage into the Drainage Network Permit* (城鎮污水排入排水管網許可證) <i>(Note 2)</i> | Urban Management Bureau of Deqing County* (德清縣城市管理局) | 8 May 2020 | 8 May 2020 | 7 May 2025 |
| Food Operation Permit* (食品經營許可證) | Deqing County Market Supervision Administration* (德清縣市場監督管理局) | 26 January 2012 | 26 January 2018 | 25 January 2023 |
| Form of Archival Filing and Registration of Foreign Trade Business Operators* (對外貿易經營者備案登記表) | Deqing County Bureau of Commerce* (德清縣商務局) | 20 July 2010 | 15 December 2017 | No expiry date |

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| <u>Name of licence/approval/permit</u> | <u>Granting authority</u> | <u>Date of first grant</u> | <u>Date of last grant</u> | <u>Expiry date</u> |
|---|---|----------------------------|---------------------------|--------------------|
| PRC Customs Declaration Unit Registration Certificate* (中華人民共和國海關報關單位 註冊登記證書) | Huzhou Customs of the PRC* (中華人民共和國湖州海關) | 31 December 2008 | 26 January 2016 | No expiry date |

Notes:

1. Based on the Classification Administration Catalog of Discharge Permits of Stationary Pollution Sources (2019 Version)* (固定污染源排污許可分類管理名錄(2019年版)) (the “**Classification Administration List 2019**”), all manufacturing companies will be reclassified and re-registered according to the amounts of pollutant emission and some companies with low pollutant emission will be exempted from the requirement of obtaining pollutant discharge permit. As confirmed by our PRC Legal Advisers, our Group is exempted from the requirement of obtaining pollutant discharge permit. For further details, please refer to “Environmental Protection — Pollutant discharge permit” in this section.
2. The Urban Drainage Permit* (城市排水許可證) issued by the Housing and Urban-rural Development Bureau of Deqing County* (德清縣住房和城鄉建設局) has expired on 10 May 2020. As confirmed by our PRC Legal Advisers, as the Administrative Measures for Urban Drainage Permit* (城市排水許可管理辦法) have been replaced by the Administrative Measures for the Discharge of Urban Sewage into the Drainage Network Permit* (城鎮污水排入排水管網許可管理辦法) in 2015, companies are required to obtain the Discharge of Urban Sewage into the Drainage Network Permit* (城鎮污水排入排水管網許可證) to replace the Urban Drainage Permit upon its expiry.

LEGAL AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, save as disclosed below under this paragraph, our Group did not experience any material non-compliance, which, in the opinion of our Directors, will have any material operational or financial impact on our operations. Having considered the facts and circumstances leading to the non-compliance incidents as disclosed below, our Group’s internal control measures to avoid recurrence of the non-compliance incident, and the preventive measures mentioned below, our Directors and the Sole Sponsor are of the view that we now have adequate and effective internal control procedures in place in accordance with the requirements under the Listing Rules, and the past non-compliance incidents will not affect the suitability of the Directors to act as directors of a listed issuer under Rules 3.08, 3.09 and 8.15 of the Listing Rules, and the suitability for listing of our Company under Rule 8.04 of the Listing Rules. As at the Latest Practicable Date, we had been in compliance with the applicable PRC laws and regulations relating to our business operations in all material respects.

| Name of the entity involved | Particulars of the non-compliance incident | Legal consequences including potential maximum penalty and the other financial liabilities | Remedial actions |
|-----------------------------|--|--|--|
| BHP Zhejiang | <p>Pursuant to the Interim Provisions on Labour Dispatch* (《劳务派遣暂行规定》) which came into effect on 1 March 2014, "if the number of despatched staff utilised by an employer exceeds 10% of the total number of its workers prior to the effective date of these Provisions, such employer shall develop a scheme for employment adjustments to reduce the proportion to the specified level within 2 years from the effective date of these Provisions.</p> <p>For the years ended 31 December 2018, the average number of despatched staff per month under arrangement was about 130, accounted for approximately 18.1% of our total number of staff at the corresponding date, which exceed the regulatory threshold of 10% and constituted a non-compliance incident of the Interim Provisions on Labour Dispatch* (《劳务派遣暂行规定》).</p> <p>As confirmed by our Directors, the non-compliance incidents were primarily due to inadequate legal knowledge and/or inadvertent oversight of the relevant legal requirements.</p> | <p>According to the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), if an employer violates any provision of this Law on labour despatch, it may be ordered by the labour administrative department to make rectification within a prescribed time limit, failing which the employer will be subject to a fine from RMB5,000 to RMB10,000 per employee exceeding the 10% statutory threshold.</p> <p>We obtained confirmations from the Deqing County Human Resources and Social Security Bureau* (德清縣人力資源和社會保障局) (the "Bureau") dated 31 December 2020 and 20 July 2021, whereby the relevant officials confirmed that no administrative penalty had been imposed against BHP Zhejiang for any non-compliance matters.</p> <p>Based on the above confirmations and the fact that we had taken rectification actions, our PRC Legal Advisers are of the view that our Group will not be subject to any fines or penalties in relation to our engagement of despatched workers.</p> <p>Our PRC Legal Advisers confirmed that the Bureau is a competent authority to certify the compliance of BHP Zhejiang pursuant to relevant PRC laws and regulations. The labour dispatch arrangement has continued after April 2019 and at the Latest Practicable Date, the current number of despatched workers hired by BHP Zhejiang does not exceed the 10% statutory threshold.</p> | <p>Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, BHP Zhejiang has not received any notice of rectification from the labour administrative departments, and it has obtained the certificates issued by relevant competent department in charge of labour affairs, proving that BHP Zhejiang has not been penalised for violation of labour laws and regulations during the Track Record Period and has completed the rectification for such non-compliance.</p> <p>In light of the above confirmation, and the fact that BHP Zhejiang has taken all rectification actions to rectify this non-compliance in full without receiving any notice of rectification from the labour administrative department in the PRC, our PRC Legal Advisers opined that the risk that BHP Zhejiang be penalised by labour administrative department is rather remote.</p> <p>To rectify the situation, we had reduced the number of despatched staff engaged by us below the regulatory threshold since April 2019. As confirmed by our PRC Legal Advisers, since our Group had completed the remedial actions before any notification or administrative punishments issued by the Bureau, the risk of further punishments or potential penalty to our Group is rather remote.</p> <p>After April 2019, our Group continues to adopt the labour dispatch arrangement and the number of despatched workers engaged by BHP Zhejiang has been reduced to below the threshold of 10%, as at the Latest Practicable Date.</p> <p>Our Group has adopted internal policies to require our human resources department to calculate the ratio of despatched staff to total number of workers on a monthly basis. Such ratio shall be reviewed by the head of the human resources department to ensure compliance with the relevant regulatory requirements in the PRC of despatched staff.</p> <p>Pursuant to the Deed of Indemnity, our Controlling Shareholders have agreed to indemnify our Group for any loss resulting from the despatched staff non-compliance.</p> |

Name of the entity involved

BHP Zhejiang

Particulars of the non-compliance incident

During the Track Record Period, BHP Zhejiang failed to make full social insurance and housing provident fund contributions for its employees as required by relevant PRC laws and regulations.

Our Directors confirm that, the aggregate underpaid social insurance and housing provident funds for the years ended 31 December 2018 and 2019 amounted to approximately RMB0.3 million and RMB0.2 million, respectively, with respect to social insurance payments, and approximately RMB3.1 million and RMB0.3 million, respectively, with respect to housing provident fund contributions.

To the best knowledge of our Directors, the non-compliance incidents were primarily due to inconsistent implementation or interpretation of the relevant regulations by local authorities in the PRC.

Legal consequences including potential maximum penalty and other financial liabilities

According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and other relevant regulations, the relevant government authority may require the company to make up the outstanding contribution with an additional late payment fee at a daily rate of 0.05% of the outstanding contribution from the due date within a given period, and if the company fails to do so, may impose a fine on the company ranging from one to three times of the total amount of the outstanding contribution.

We obtained confirmation letters from the Social Insurance Fund Management Centre of Deqing County* (德清縣社會保險管理服務中心) dated 31 December 2020 and 30 June 2021, which is a competent authority, confirming that during the Track Record Period, given BHP Zhejiang is a key enterprise in the county, pursuant to "Memorandum of Understanding Related to the Key Enterprises' Report and Payment of Social Insurance Contribution"* (關於縣行業龍頭骨幹企業社會保險申報繳納有關事宜的會議備忘錄), it is allowed to calculate the social insurance contribution based on a discount rate of the actual salary of the employee and BHP Zhejiang had not been subject to any penalty with respect to its payment of social insurance contribution and labour related laws and regulations.

As advised by our PRC Legal Advisers, pursuant to the Regulation of the Labour Protection Monitoring* (《勞動保護監察條例》), any non-compliance with labour protection laws and regulations will not be investigated if it is not discovered or reported within two years from the date when such breach is committed or if such breach is a continuing breach, the date of cessation of such breach. Also, part of the outstanding social insurance contribution involved some of our ex-employees whose employment with us have been terminated for more than two years. As advised by our PRC legal Advisers, if no complaint was filed by such ex-employees with the Social Insurance Fund Management Centre of Deqing County* (德清縣社會保險管理服務中心) within two years after the termination of their employment, the risk of the Social Insurance Fund Management Centre of Deqing County* (德清縣社會保險管理服務中心) demanding payment of the outstanding social insurance contribution for such ex-employees is relatively remote. Hence, after excluding the outstanding social insurance contribution in relation to such ex-employees, we estimate that our maximum penalty exposure for the non-compliance is a fine of approximately RMB1.1 million as at the Latest Practicable Date.

According to the Regulations on Management of Housing Provident Funds* (《住房公積金管理條例》), if a company fails to pay or does not contribute to the housing provident fund within the prescribed time period, the relevant government authority may order it to make up the outstanding contributions within the prescribed time limit, and failing which, the relevant authority may apply for compulsory enforcement by the People's Court. If the employer fails to complete the registration formalities within the prescribed time limit, it will be subject to a fine from RMB10,000 to RMB50,000.

Remedial actions

During the Track Record Period and up to the Latest Practicable Date, we had not received any orders or demands from the relevant government authorities requesting us to pay the shortfall in social insurance or housing provident fund contributions or any penalties and there had been no complaints from our Group's employees regarding the non-compliance of social insurance and housing provident fund contributions.

We have obtained a written confirmation from the Social Insurance Fund Management Centre of Deqing County* (德清縣社會保險管理服務中心), which is a competent authority, dated 31 December 2020 confirming that (i) it would not initiate any request for payment of the outstanding balance; (ii) it would not administer any penalties in relation to the above non-compliance; and (iii) BHP Zhejiang has not been subject to any litigations, investigations, claims, arbitrations or disputes in relation to the above non-compliance and there has not been any circumstances leading to such litigations, investigations, claims, arbitrations or disputes. Our Directors confirm that, since September 2019, BHP Zhejiang has paid social insurance premiums in full for all its employees in accordance with the applicable PRC laws and regulations.

We have obtained a written confirmation from the Huzhou City Housing and Provident Fund Management Centre, Deqing County Branch* (湖州市住房公積金管理中心德清縣分中心), which is a competent authority, dated 31 December 2020 confirming that (i) it would not initiate any request for payment of the outstanding balance; (ii) it would not administer any penalties in relation to the above non-compliance; (iii) BHP Zhejiang has not been subject to any investigations, claims or penalties in relation to the above non-compliance and there has not been any circumstances leading to such investigations, claims or penalties; and (iv) since July 2019, BHP Zhejiang has paid housing provident fund in full for all its employees in accordance with the applicable PRC laws and regulations.

Based on the written confirmations, our PRC Legal Advisers are of the view that the risk of BHP Zhejiang being punished or claimed for paying is remote. In the meanwhile, as the supervising body has issued a written confirmation that it would not do any administration punishment or claim for any further paying to us, and our controlling shareholders have agreed to indemnify our Group for any loss resulting from the social insurance non-compliance, our Directors are of the view that no provision is necessary in respect of the social insurance and housing provident fund contributions.

Name of the entity involved

Particulars of the non-compliance incident

Legal consequences including potential maximum penalty and other financial liabilities

Remedial actions

In order to prevent future potential non-compliance incidents in relation to social insurance and housing provident fund contributions and procedures and strengthen our internal control specifying that:

- (i) the registration and account opening for social insurance and housing provident fund contributions of all employees will be completed within the prescribed time limit;
- (ii) training will be provided to the relevant personnel of our human resources department on the social insurance and housing provident fund contributions requirements under the relevant PRC laws and regulations; and

(iii) Mr. Zhu, the executive Director and the chairman of the Board, will regularly review policies and procedures in relation to the social insurance and housing provident fund contributions to ensure compliance with the regulatory requirements and the personnel of our human resources department with relevant knowledge and expertise will be responsible for the calculation of social insurance and housing provident fund contributions.

Pursuant to the Deed of Indemnity, our Controlling Shareholders have agreed to indemnify us for all claims, costs, expenses, and losses incurred by us arising from such non-compliance incidents that exceed our provisions for the under paid amount of social insurance contributions and housing provident fund contributions.

| Name of the entity involved | Particulars of the non-compliance incident | Legal consequences including potential maximum penalty and other financial liabilities | Remedial actions |
|-----------------------------|--|---|---|
| BHP Zhejiang | <p>On 18 September 2008, BHP Zhejiang was established under the laws of PRC as a wholly foreign-owned enterprise. Since the establishment of BHP Zhejiang, Grand Resources, which is a company incorporated under the laws of Hong Kong, has been its sole equity holder. In 2009, BHP Zhejiang obtained its Foreign Exchange Registration Certificate* (外匯登記證) in accordance with the then applicable rule and regulations in the PRC.</p> <p>On 14 July 2014, the SAFE introduced new requirements relating to foreign exchange by issuing the Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles* (國家外匯管理局關於境內居民通過特殊目的公司境外投資及返程投資外匯管理有關問題的通知) (the "Circular No. 37"), which superseded the previous Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents Engaging in Overseas Financing through Round-Trip Investment via Special Purpose Companies* (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知).</p> <p>Pursuant to the Circular No. 37, among others,</p> | <p>On 21 June 2019, the SAFE (Deqing county branch)* (國家外匯管理局德清縣支局) (the "SAFE (Deqing)") issued a Decision on Administrative Penalty* (《行政處罰決定書》) (the "Decision") to BHP Zhejiang, which stated that the Transfer of Funds constitute evasion of foreign exchange through transfer of domestic funds abroad in violation of the relevant regulations. Accordingly, pursuant to Section 39 of the Regulations of the People's Republic of China on Foreign Exchange Administration* (《中華人民共和國外匯管理條例》) (the "Foreign Exchange Regulations"), BHP Zhejiang was ordered to repatriate all of the Funds back to the PRC and was fined in the amount of RMB1,575,000 (the "Administrative Fine").</p> <p>To clarify certain matters in relation to the Decision, on 8 August 2019, the PRC Legal Advisers, the Sole Sponsor and the legal advisers to the Sole Sponsor as to PRC law conducted an interview with the chief and deputy chief of foreign exchange* (外匯股股長及副股長) of the SAFE (Deqing), who were responsible for handling daily foreign exchange management.</p> <p>During the interview, the chief and deputy chief of foreign exchange confirmed that:</p> | <p>After realising our Group might have violated Circular No.37, our Group made the Voluntary Submission to the SAFE (Deqing), and cooperated with the ensuing enquiry conducted by the SAFE (Deqing), including but not limited to responding to queries raised by the SAFE (Deqing) and providing the SAFE (Deqing) with materials and documents relating to the Transfer of Funds.</p> <p>Mr. Zhu, Mr. Fang, Mr. Mao and Mr. Zhang have duly completed the foreign exchange registration of domestic residents in June 2019, and BHP Zhejiang has completed updating its foreign exchange registration in August 2019. As confirmed by the PRC Legal Advisers, all of Mr. Zhu, Mr. Fang, Mr. Mao, Mr. Zhang and BHP Zhejiang have duly completed all necessary foreign exchange registrations under Circular No. 37. As such, BHP Zhejiang can transfer funds into and out of the PRC in accordance with the relevant laws and regulations of the PRC.</p> <p>As at the Latest Practicable Date, BHP Zhejiang had settled all of the Administrative Fine and, through Grand Resources, repatriated all of the Funds back to the PRC. The sources of fund for such repatriation came from the financial resources of the Controlling Shareholders and the internal resources of our Group.</p> <p>As advised by the PRC Legal Advisers:</p> |
| | (i) | the Transfers of Funds constituted evasion of foreign exchange through transfer of domestic funds abroad in violation of the relevant regulation, which is a non-compliance of general nature; | (i) based on the interview conducted with representatives of the SAFE (Deqing), the non-compliance of BHP Zhejiang was of general nature, and not of serious nature; |
| | (ii) | the content of the Voluntary Submission is true; | (ii) the sum of Administrative Fine, which amounted to 5% of the total Funds transferred and is significantly below the penalty stipulated under Section 39 of the Foreign Exchange Regulations for non-compliance of serious nature (being 30% to 100% of the total funds transferred), also indicated that the SAFE (Deqing) determined that the non-compliance of BHP Zhejiang was not of serious nature; |
| | (iii) | according to the Decision, there is no time limit for the repatriation of the Funds, and the obligation of BHP Zhejiang to repatriate the Funds shall be considered as fulfilled upon the repatriation of all of the Funds back to the PRC; and | (iii) based on the interview conducted with representatives of the SAFE (Deqing), while the non-compliance of BHP Zhejiang constituted evasion of foreign exchange in violation of the relevant regulations, it does not constitute evasion of foreign exchange in a deceitful manner under Section 39 of the Foreign Exchange Regulations; |
| | (iv) | according to the Decision, save for the repatriation of the Funds and payment of the Administrative Fine, no other administrative would have been imposed on BHP Zhejiang for the Transfer of Funds. | |
| | As confirmed by the PRC Legal Advisers, the chief and deputy chief of foreign exchange are the competent persons to represent SAFE (Deqing), which is a competent authority, in attending the interview. | | |

| Name of the entity involved | Particulars of the non-compliance incident | Legal consequences including potential maximum penalty and other financial liabilities | Remedial actions |
|-----------------------------|---|--|--|
| | <p>(ii) any PRC resident who already contributed his legally-owned onshore or offshore assets and equity into an overseas SPV prior to the issuance of Circular No. 37 shall conduct foreign exchange registration with the local branch of the SAFE;</p> <p>(iii) any subsidiary of the SPV which was established in the PRC prior to the issuance of Circular No. 37 shall update its foreign exchange registration with the relevant authorities by providing the particulars of its ultimate beneficial owners; and</p> <p>(iv) prior to completion of the abovementioned registrations, any subsidiary of the SPV which was established in the PRC shall not transfer any fund or make any dividend payment to the SPV.</p> <p>On 11 May 2016, 12 April 2017 and 10 August 2018, BHP Zhejiang transferred RMB9.0 million, RMB9.0 million and RMB13.5 million (the “Funds”) to Grand Resources as dividend payment, respectively (the “Transfer of Funds”). Such Transfer of Funds was conducted through legal channels and BHP Zhejiang had paid EIT and withholding tax on behalf of Grand Resources in accordance with the relevant laws and regulations of the PRC.</p> | | <p>(iv) the possibility of imposing further administrative penalty in respect of the Transfer of Funds on BHP Zhejiang and/or its directors by the relevant authorities in the PRC is remote; and</p> <p>(v) the Transfer of Funds would not have any material impact on our Group’s business.</p> <p>After considering the opinion of the PRC Legal Advisers and the facts and circumstances leading to the non-compliance with Circular No. 37, and on the basis that such non-compliance:</p> <p>(i) was not of serious nature and does not constitute evasion of foreign exchange in a deceitful manner under Section 39 of the Foreign Exchange Regulations;</p> <p>(ii) would not have any material impact on our Group’s business;</p> <p>(iii) was not intentional or willful;</p> <p>(iv) was due to unfamiliarity of the relevant requirement by Mr. Zhu, Mr. Fang, Mr. Mao and Mr. Zhang;</p> <p>(v) did not involve any deceit, dishonesty or fraud on the part of Mr. Zhu, Mr. Fang, Mr. Mao and Mr. Zhang, our Directors or senior management, as evidenced by, among others, BHP Zhejiang conducting the Transfer of Funds through legal channels and paying the EIT and withholding tax on behalf of Grand Resources in accordance with the relevant laws and regulations of the PRC; and</p> <p>(vi) Mr. Zhu, Mr. Fang, Mr. Mao, Mr. Zhang and our Group have taken the abovementioned rectification actions;</p> <p>our Directors are of the view, and the Sole Sponsor concurs, that the non-compliance does not have any material adverse impact on the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules or the suitability of listing of the Company under Rule 8.04 of the Listing Rules.</p> |

| Name of the entity involved | Particulars of the non-compliance incident | Legal consequences including potential maximum penalty and other financial liabilities | Remedial actions |
|-----------------------------|---|--|------------------|
| | <p>In early 2019, in contemplation of the Listing, the PRC Legal Advisers conducted legal due diligence on our Group and advised us that the Transfer of Funds might have violated Circular No. 37. As such, on 6 May 2019, our Group made a voluntary submission (the “Voluntary Submission”) to the SAFE (Deying), notifying the SAFE (Deying) of the Transfer of Funds, as well as explaining that due to unfamiliarity with the relevant requirements relating to foreign exchange, (i) Mr. Zhu, Mr. Fang, Mr. Mao and Mr. Zhang, who are the ultimate beneficial owners of BHP Zhejiang, failed to complete their foreign exchange registrations in time and (ii) BHP Zhejiang went through the foreign exchange remittance procedures for the Transfer of Funds with its original foreign exchange registration.</p> | | |
| | <p>As confirmed by Mr. Zhu, Mr. Fang, Mr. Mao and Mr. Zhang, as BHP Zhejiang has already obtained its Foreign Exchange Registration Certificate in accordance with the then applicable rule and regulations in the PRC in 2009, they were not aware that the new requirements under Circular No. 37 implemented in July 2014 were applicable to themselves and BHP Zhejiang, retrospectively. As such, Mr. Zhu, Mr. Fang, Mr. Mao and Mr. Zhang failed to complete their foreign exchange registrations or update the original foreign exchange registrations of BHP Zhejiang prior to the Transfer of Funds.</p> | | |

| Name of the entity involved | Particulars of the non-compliance incident | Legal consequences including potential maximum penalty and other financial liabilities | Remedial actions |
|-----------------------------|--|--|---|
| BHP Housewares | <p>For the years 2016/2017 and 2017/2018, BHP Housewares failed to notify the Hong Kong Inland Revenue Department (the "IRD") of BHP Housewares' chargeability to tax and did not file tax returns to the IRD within the prescribed time limit, which, as advised by the Legal Counsel, constituted a breach of Section 51(2) of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "IRO").</p> <p>In around mid-2019, in contemplation of the Listing, our administrative and finance department conducted a review of our tax filing records, and discovered that for the years 2016/2017 and 2017/2018, BHP Housewares failed to notify the IRD of its chargeability to tax and did not file tax returns.</p> <p>Such non-compliance was not willful and was due to inadvertent oversight of the staff of our Group responsible for supervising tax matters. Our Directors had no direct or willful involvement in such non-compliance.</p> | <p>Pursuant to Section 80(2)(c) of the IRO, BHP Housewares shall be liable to a maximum principal fine of HK\$10,000 and a further fine not exceeding 300% of tax undercharged or would have been charged.</p> <p>As advised by the Legal Counsel, since (i) the non-compliance was attributable to oversight and was not done with a deliberate intent; and (ii) BHP Houseware has already filed the relevant tax returns, received the tax assessments and paid the relevant tax demands, the gravity of such kind of non-compliance is very minor and it is not the usual practice of the IRD to proceed with prosecution against the shareholders, directors and/or staff of BHP Housewares.</p> | <p>On 11 September 2019, our Group submitted to the IRD the audited financial statements and the related tax computations of BHP Housewares and requested the IRD to issue the relevant tax returns. On 8 November 2019, the IRD issued tax returns to BHP Housewares for the years 2016/2017 and 2017/2018. The tax returns were then filed by our Group on 5 December 2019.</p> <p>The tax assessments for the years 2016/2017 and 2017/2018 were issued by the IRD on 4 March 2020 and 13 January 2020, respectively. BHP Housewares settled the tax payments of approximately HK\$2.2 million and HK\$2.3 million on 14 April 2020 and 19 February 2020, respectively, before the respective due dates as stated in the tax assessments.</p> <p>BHP Housewares has informed the IRD of its chargeability to tax for the year 2018/2019 within the prescribed time limit under Section 51(2) of the IRO.</p> <p>We have obtained a written confirmation from the IRD, which is a competent authority, dated 12 June 2020, confirming that the IRD has reviewed its records and found that there was no non-compliance record of BHP Housewares as at the date of the confirmation.</p> <p>After considering the opinion of the Legal Counsel, the written confirmation from the IRD and the facts and circumstances leading to the non-compliance with the IRO, and on the basis that such non-compliance:</p> <ol style="list-style-type: none"> (i) was of very minor nature; (ii) was not intentional or willful; (iii) was due to inadvertent oversight of the staff of our Group responsible for supervising tax matters; (iv) our Directors had no direct or willful involvement in the breach; and (v) our Group has taken the abovementioned rectification actions; <p>our Directors are of the view, and the Sole Sponsor concurs, that the non-compliance does not have any material negative implication on the integrity and competency of our Directors and does not affect their suitability to act as our Directors.</p> |

| Name of the entity involved | Particulars of the non-compliance incident | Legal consequences including potential maximum penalty and other financial liabilities | Remedial actions |
|-----------------------------|--|--|---|
| | | | In order to prevent recurrence of such non-compliance incidents: |
| | | | <p>(i) we have appointed Mr. Leung Man Hang, one of our joint company secretaries, to perform ongoing review on our overall tax position and handle tax related matters including the preparation of tax returns of our Hong Kong subsidiaries on 23 April 2020. Mr. Leung Man Hang has over nine years of experience in audit and accounting and is a member of The Hong Kong Institute of Certified Public Accountants. For details of the experience and qualifications of Mr. Leung Man Hang, please refer to the section headed “Directors and Senior Management – Joint Company Secretaries” in this prospectus;</p> <p>(ii) we have established recruitment guidelines on 23 April 2020 to ensure that our administration and finance department is equipped with personnel having sufficient experience and knowledge on tax issue and tax filing, to facilitate the efficiency of the handling of tax computation and tax return;</p> <p>(iii) our administration and finance department has adopted a set of guidelines strengthening the control of tax filing related matters on 23 April 2020 to monitor and review the tax returns, tax computations and related tax filings in order to ensure the completeness of tax filing process and that the tax payable is settled in a timely manner upon receipt of tax assessment and payment notice;</p> <p>(iv) we have adopted an internal training programme on 23 April 2020 such that training will be provided to the relevant personnel of our administration and finance department on taxation requirements under the relevant Hong Kong laws and regulations on a regular basis; and</p> <p>(v) our audit committee will oversee the financial reporting and internal control procedures in accounting and financial matters to ensure compliance with the Listing Rules and all relevant laws and regulations.</p> |

BUSINESS

Litigations

Our PRC Legal Advisers confirmed that during the Track Record Period and up to the Latest Practicable Date, there was no foreseeable or pending legal proceedings or arbitration. Our Directors have confirmed that, during the Track Record Period and as at the Latest Practicable Date, there was no legal proceedings or claim pending or threatened against us or our Directors that could, individually or in aggregate, have a material adverse effect on our business, financial condition or results of operations.

Indemnity given by our Controlling Shareholders

Our Controlling Shareholders have entered the Deed of Indemnity to indemnify our Group subject to the terms and conditions of the Deed of Indemnity, in respect of, among others, all claims and liabilities to which our Group may be subject to in respect of any disputes, arbitrations or legal proceedings occurring on or before the Listing Date (which includes any loss resulting from the despatch staff non-compliance, any loss resulting from the social insurance and housing provident fund non-compliance). Further details of the Deed of Indemnity are set out in the paragraphs headed “D. Other information — 1. Estate duty, tax and other indemnities — Deed of Indemnity” in Appendix V to this prospectus. Based on the above, our PRC Legal Advisers take the view that (i) our PRC subsidiary has fulfilled all local regulatory requirements for payment of social insurance contributions; and (ii) the probability of our PRC subsidiary to compensate or to pay any penalty or late payment for their failure to pay social insurance contributions to their employees in full is very low. Our Directors take the view that there is no material adverse impact on our financial condition or business operation as a result of the non-compliant incidents set out in this section.

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, apart from those disclosed in this section, we had complied in all material respects all applicable laws and regulations and there was no non-compliance incident the nature of which is material or systemic.

INTERNAL CONTROL

Our Directors take the view that internal control is crucial to our business development and success. To streamline our current internal control procedure, we engaged an independent internal control consultant (the “**Internal Control Consultant**”) in July 2019 to review the adequacy and effectiveness of our internal control procedures, systems and controls. The Internal Control Consultant provided recommendations for our management’s consideration to enhance our internal controls and procedures.

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The Internal Control Consultant has identified the following key findings and our Group has taken the following remedial actions based upon the Internal Control Consultant's recommendations:

Key findings

Corresponding measures

We have not set up Board committees and appointed company secretary as required under the Listing Rules.

We should set up the audit committee, remuneration committee and nomination committee and appoint company secretary to ensure compliance with the Listing Rules before Listing.

We have not established an internal audit function.

We should appoint an Independent Third Party to perform annual review of the risk management and internal control system of our Group and report directly to our audit committee.

We have no insurance coverage in respect of legal proceedings against our Directors.

We should arrange appropriate insurance coverage on our Directors' liabilities in respect of legal proceedings against our Directors arising out of corporate activities upon the Listing.

The Internal Control Consultant conducted a follow-up review in March 2020 and to assess whether we have implemented the internal control measures recommended by the Internal Control Consultant and whether the deficiencies identified in the review have been rectified. Based on the result of this follow-up review, save for the setting up of our Board committees, appointment of an internal control consultant to perform annual review of the risk management and internal control system of our Group and the arrangement for insurance coverage on our Directors' liabilities which will be done upon or shortly after Listing, we demonstrated that we have implemented all major internal control measures recommended. No material deficiencies were identified during the internal control review.

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Internal control measures to improve corporate governance

Our Directors recognise the importance of up-keeping adequate internal control and risk management systems. In order to continuously improve our Group's corporate governance, our Group has implemented and will implement, among others, the following measures:

- Our Group will engage a PRC legal adviser to provide legal services to it in relation to future compliance with the PRC laws and regulations in all respects;
- Our Group has arranged for our Directors and senior management to attend a training programme on the relevant applicable laws and regulations, including the Listing Rules, provided by our Company's Hong Kong legal advisers prior to the Listing. Our Group will continue to arrange various training programmes on an annual basis to be provided by its legal advisers in Hong Kong and the PRC and/or any appropriate accredited institution to update our Directors, senior management and relevant employees on the relevant laws and regulations. In addition, specific training programme(s) in relation to updates on relevant applicable laws and regulations will also be held when necessary;
- Our Group will provide trainings for our employees on compliance matters in order to develop a corporate culture and to enhance their compliance perception and responsibility and to enhance their knowledge to manage our operation risks;
- We have established and adopted various mechanisms and procedures for compliance with the requirements under the Listing Rules, including connected transactions, notifiable transactions and disclosure of inside information. Our Company has appointed Giraffe Capital Limited as our compliance adviser to advise on regulatory compliance with the Listing Rules;
- When necessary, we will engage external professional, including auditors, internal control consultant, and external legal advisers to render professional advice as to compliance with statutory and regulatory requirements, as applicable to our Group from time to time;
- Our Group has established and adopted an internal control mechanism to manage and govern the corporate governance and procedures, codes of conduct, conflict of interest matters to enhance our internal compliance system and monitor proper conduct of our business;

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- Our Group will maintain and regularly update a list of related and connected parties in order to identify and monitor related parties and/or connected transactions so that we can make timely disclosures when necessary;
- We have established an audit committee which will implement formal and transparent arrangements to apply financial reporting and internal control principles in accounting and financial matters to ensure compliance with the Listing Rules and all relevant laws and regulations, including timely preparation and laying of accounts. It will also periodically review our compliance status with the Hong Kong laws after the Listing. The audit committee will exercise its oversight by:
 - (i) reviewing our internal control and legal compliance;
 - (ii) discussing the internal control systems with the management of our Group to ensure that the management has performed its duty to have an effective internal control system; and
 - (iii) considering the major investigation findings on internal control matters as delegated by the Board or on its own initiative and the management's response to these findings;

Based on the above, our Directors are of the view that the above internal control measures could adequately and effectively ensure that our Group has implemented a proper internal control system and maintained good corporate governance practice.

Foreign exchange forward contracts and foreign exchange risk management measures

The vast majority of our sales are denominated in US dollars and our purchases and labour costs are predominantly denominated in RMB and as such, we are subject to foreign exchange risks. During the Track Record Period, we have also entered into forward exchange forward contracts with banks. For details, please refer to the section headed “Financial information — Discussion on selected balance sheet items — Derivative Financial Instruments” in this prospectus and note 20.2 to the Accountants' Report in Appendix I to this prospectus.

Our management team is responsible for monitoring our Group's foreign exchange exposure mainly arising from the customers' purchase orders predominantly denominated in US dollars.

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Our foreign exchange risk management measures involve, among others, (i) monitoring the level of the outstanding trade receivables, in particular those denominated in foreign currencies, from time to time and maintaining accurate accounting records thereof by our administration and finance team; (ii) monitoring the exchange rate fluctuations closely by our administration and finance team; (iii) considering investment in derivative financial instruments, such as foreign exchange forward contracts, which are transacted only with authorised financial institutions; (iv) conduct analysis on risk and benefit assessment of such investment, by our finance team; (v) monitoring the performance of our investment on a regular basis by our financial manager; and (vi) requiring prior approval by our Board of any foreign exchange forward contracts to be entered into by our Group.

In respect of our investments in derivative financial instruments, we have formulated an investment management policy to analyse and assess the risk and benefit of each investment, including (i) the duration of the investment and the risk exposure; (ii) costs associated with the entering into the investment transaction; (iii) potential financial return and loss of the instrument; and (iv) the expected market trends of interest rate and exchange rate fluctuations.