
BUSINESS

OVERVIEW

We are a leading automotive beauty and maintenance aerosol product manufacturer in the PRC. According to the CIC Report, in 2018, we were ranked first in the manufacturing of aerosol products used in the automotive beauty and maintenance market in the PRC in terms of revenue, with a market share of approximately 13.2%, and the sales volume of aerosol products constituted approximately 20% of the total sales volume of products used in the automotive beauty and maintenance market in the PRC in 2018.

We are engaged in the design, development, manufacture and sale of a wide range of automotive beauty and maintenance products including auto cleaning and maintenance products (such as auto interior decoration cleaning products and tyre and wheel cleaning and care products), paint and coating (such as chrome aerosol spray), winter and summer specials (such as refrigerant and cold cranking agent) and air-fresheners. The automotive beauty and maintenance products are in the form of aerosol and non-aerosol products. We also design, develop, manufacture and sell personal care products (such as foaming facial wash, sunscreen, moisturiser, deodoriser and hand wash) and other products including household products (such as paint and floor polish). A majority of the products we sold during the Track Record Period were aerosol products.

For the three years ended 31 December 2018, our revenue was approximately, HK\$526.9 million, HK\$518.4 million and HK\$610.9 million, respectively. Set out below is a breakdown of our revenue by product categories during the Track Record Period:

	Year ended 31 December					
	2016		2017		2018	
	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>
Automotive beauty and maintenance products						
- aerosol products	412,739	78.3%	390,573	75.3%	417,474	68.3%
- non-aerosol products	63,551	12.1%	59,077	11.4%	62,755	10.3%
Subtotal	476,290	90.4%	449,650	86.7%	480,229	78.6%
Personal care products	44,507	8.4%	59,339	11.4%	125,920	20.6%
Other products (<i>Note</i>)	6,058	1.2%	9,392	1.9%	4,715	0.8%
Total	526,855	100.0%	518,381	100.0%	610,864	100.0%

Note: "Other products" include household products (such as paint and floor polish), packaging materials (such as dip-tubes, valves and paper-boxes) and car cleaning kits and tools.

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During the Track Record Period, we derived most of our revenue from our automotive beauty and maintenance products. Whilst we focus on the supply of automotive beauty and maintenance products, we have the vision to explore markets with growth potential. In November 2017, we entered into an equity transfer agreement regarding the acquisition of Guangzhou Euro Asia which is primarily engaged in the design, development, manufacture and sale of personal care products. For the three years ended 31 December 2018, revenue attributable to our personal care products was approximately HK\$44.5 million, HK\$59.3 million and HK\$125.9 million, respectively.

According to the CIC Report, along with the increasing awareness of personal appearance and the development of personal care products market, the sales volume of aerosol products in this market increased significantly from 2014 to 2018, representing a CAGR of 10.1%. Driven by the expansion of distribution channels for aerosol products and with the increasing purchasing power enjoyed by consumers, the sales volume of aerosol products used in the personal care products market is forecasted to rise continually at a CAGR of 6.9% between 2018 and 2023.

We supply our products on both OBM basis and CMS basis. Our OBM products represent original brand manufacturing products, that is, products which we design, develop, manufacture and sell under our own or licensed brand names. Our award-winning BOTNY (保賜利) brand is our signature brand. Among other awards, our BOTNY (保賜利) brand was selected as one of the Top 100 Automotive Post-market Brands* (2018中國汽車後市場百強品牌) by Global Automotive Media Recommendation Center* (全球汽車媒體聯薦中心) (Note 1) and the CIAACE Committee* (CIAACE中國汽車用品暨改裝汽車展覽會組委員會) (Note 2) in 2018 and the ternary catalytic restoration agent (三元催化修復劑) under our BOTNY (保賜利) brand was awarded 2016 Recommended Product* (2016年推薦大獎) by Auto Magazine* (汽車雜誌) (Note 3). For the three years ended 31 December 2018, we derived approximately 57.6%, 59.2% and 52.5% of our revenue from our supply of OBM products, respectively. Among the sales of our OBM products, approximately 77.0%, 80.4% and 81.6% were attributable to our BOTNY (保賜利) brand, respectively. Our OBM customers comprise contractual and non-contractual distributors in the PRC, customers who purchase through our online retail stores, overseas OBM customers and other OBM customers. As at 31 December 2018, we had a nationwide network of over 190 contractual distributors and over 600 non-contractual distributors in the PRC.

In 2013, we started to sell our OBM products to overseas markets. For the three years ended 31 December 2018, overseas sales of our OBM products (with reference to the locations of registered offices of our customers) amounted to approximately HK\$6.1 million, HK\$8.6 million and HK\$8.3 million, representing approximately 1.2%, 1.7% and 1.4% of our revenue, respectively.

We also have two online stores “保賜利旗艦店” at Tmall and “保賜利京東自營旗艦店” at JD.com. We plan to increase our sale of OBM products, enhance our brand recognition and achieve a broader consumer base through our e-commerce strategies. In particular, we have introduced a new series of automotive beauty and maintenance products, 保寶龍, under our BOTNY (保賜利) brand which in particular targets young car owners in the PRC in October 2018 initially through online platforms. We have also sold products under our new series through our distributors. In addition, we have introduced user-friendly automotive beauty and maintenance products together with the slogan “讓汽車美容養護更簡單 (Easy Car Care Easy Life)”.

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Our CMS products, on the other hand, represent contract manufacturing service products, that is, products we manufacture which are marketed and sold under our customers' brand names. Our CMS products are manufactured on OEM basis or ODM basis. In the case of OEM, we manufacture our CMS products in accordance with our customers' designs and specifications. In the case of ODM, we design, develop and manufacture our CMS products. For the three years ended 31 December 2018, we derived approximately 42.4%, 40.7% and 47.5% of our revenue from our supply of CMS products, respectively. During the Track Record Period, a substantial part of our CMS products were distributed overseas, and Japan was the top overseas market (based on the locations of the registered offices of our customers) of our products.

We have been honoured with awards from various associations and governmental authorities. For example, in 2018, we were selected as one of the Top 10 China Automotive Industry - Automotive Beauty and Maintenance Companies* (中國汽車後服務行業汽車美容護理類 Top 10) by China Auto Dealers Chamber of Commerce (CADCC)* (中華全國工商業聯合會汽車經銷商商會) (Note 4), and in 2017, we were awarded with the Wealth Pyramid Award - Top 10 Car Beautification Brands for the Year* (財富金字塔獎年度汽車美容十大品牌) and the Wealth Pyramid Award - Top 10 Automotive Beauty and Maintenance Brands for the Year* (財富金字塔獎年度汽車保養十大品牌) by China Automobile Aftermarket Association* (中國汽車後市場總會) (Note 5) and the Guangdong Brand Product* (廣東省名牌產品) by the Guangdong Brand Product Promotion Commission* (廣東省名牌產品推進委員會) (Note 6).

Notes:

1. Global Automotive Media Recommendation Center* (全球汽車媒體聯薦中心) is an affiliation of media companies with a focus in the automobile industry which operates through the YASN International (雅森國際) platform. YASN International (雅森國際) is an established professional trade fairs and exhibitions organiser in the PRC.
2. CIAACE Committee* (CIAACE中國汽車用品暨改裝汽車展覽會組委員會) is a professional trade fairs and exhibitions organiser with a focus on the PRC auto aftermarket which was established in 2005. As stated in its website (<http://www.ciaacexpo.com>), CIAACE is the only professional exhibition for auto aftermarket approved by UFI (The Global Association of the Exhibition Industry (國際展覽業協會)) and the number of exhibitors of CIAACE exceeded 10,000 in 2018.
3. Auto Magazine* is affiliated with Hot Fire Media* (熱火傳媒), a professional media group founded in 2002.
4. China Auto Dealers Chamber of Commerce (CADCC)* (中華全國工商業聯合會汽車經銷商會) is a non-profit industry body established in 2006 with a focus on automobile distributorship in the PRC.
5. China Automobile Aftermarket Association* (中國汽車後市場總會) is a non-profit national association founded in 2010 to formulate rules and regulations so as to standardise and maintain the sustainable development of the automobile aftermarket in the PRC.
6. Guangdong Brand Product Promotion Commission* (廣東省名牌產品推進委員會) is a committee of the Administration of Quality and Technology Supervision of Guangdong Province* (廣東省質量技術監督局) which is a PRC administration body. The commission is responsible for supervision and revision of regulations and standards for famous brand industrial products in Guangdong province.

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COMPETITIVE STRENGTHS

Market leader in the manufacturing of automotive beauty and maintenance aerosol products in the PRC which is well positioned to benefit from the growth in the PRC automotive beauty and maintenance aerosol product market

We are a leading automotive beauty and maintenance aerosol product manufacturer in the PRC with 18 years of experience in the automotive beauty and maintenance industry. According to the CIC Report, in 2018, we were ranked first in the manufacturing of aerosol products used in the automotive beauty and maintenance market in the PRC in terms of sales revenue, with a market share of approximately 13.2%, and the sales volume of aerosol products constituted approximately 20% of the total sales volume of products used in the automotive beauty and maintenance market in the PRC in 2018.

Given our well established presence in the PRC automotive beauty and maintenance industry, our Directors believe that we are well positioned to benefit from the growth in the PRC automotive beauty and maintenance product market. According to the CIC Report, total consumer expenditure of products in the automotive beauty and maintenance market in the PRC increased significantly from approximately RMB157.3 billion in 2014 to approximately RMB285.2 billion in 2018, representing a CAGR of approximately 16.0%. The growth in total consumer expenditure of products in the automotive beauty and maintenance market in the PRC is expected to grow at a CAGR of approximately 10.6% between 2018 and 2023.

Stringent quality control standards and outstanding product quality

Guangzhou Botny is accredited with the following certifications from Zhongjian Certification Co., Ltd.* (中鑒認證有限責任公司): (i) GB/T19001-2016/ISO9001:2015 standard quality management system certification for our design, production and sale of aerosol products, cleaning agents, wax products and heat insulation coating products; and (ii) GB/T24001-2016/ISO14001:2015 environmental management system certification for our design, production and sale of aerosol products, cleaning agents, wax products and heat insulation coating products and the related management system. Both certificates were awarded on 26 July 2016 and will remain valid until 25 July 2019. Guangzhou Euro Asia is accredited with the following certifications from Zhongjian Certification Co., Ltd.* (中鑒認證有限責任公司): (i) GB/T19001-2016/ISO9001:2015 standard quality management certification for our design, production and sale of aerosol products, cleaning agents, wax products and skincare, haircare class cosmetics; and (ii) ISO9001:2015 quality management system certification for our design, production and sale of aerosol products, cleaning agents, wax products and skincare, haircare class cosmetics. Both certificates were awarded on 1 August 2017 and will remain valid until 31 July 2020.

Our outstanding product quality is reflected in our product return rates. Our product returns during the Track Record Period only amounted to approximately HK\$0.6 million, HK\$1.1 million and HK\$1.1 million, accounting for approximately 0.1%, 0.2%, and 0.2% of our total revenue, respectively for the three years ended 31 December 2018. During the Track Record Period and as at the Latest Practicable Date, (i) we were not subject to material product complaints or regulatory fines and penalties in the PRC regarding product quality or safety; and (ii) we did not have material sales return or product recall.

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Strong research and development ability

Our Directors believe that our research and development capability provides us with a competitive edge over our competitors in the PRC and is a crucial factor for our success. As at the Latest Practicable Date, our quality control and technical supervision department had 68 employees. It is divided into the following teams: (i) quality assurance; and (ii) technical supervision (including product engineering). As at the Latest Practicable Date, our executive Director and the head of our safety department and quality control and technical supervision department, Mr. Yang, had over 18 years of experience in quality management and technical supervision in aerosol manufacturing and filling. He joined Guangzhou Botny in September 2000. As at the Latest Practicable Date, other key personnel of the quality control and technical supervision department had approximately five to 15 years of experience in the research and development and/or quality control of car care products, personal care products or household products. In order to further strengthen our capability in research and development, we work in collaboration with the Chemical Engineering Faculty of the Guangzhou University (廣州大學精細化工研究所) in research and development of environmental friendly products.

We are dedicated to new product development and strive to develop more environmental friendly automotive beauty and maintenance aerosol products, that is, automotive beauty and maintenance aerosol products which are water-based, low-VOC and not harmful. For example, in 2017, we launched a water-based environmental spray paint (水性環保噴漆) (sold on OBM basis under our BOTNY (保賜利) brand) which is an environmental friendly aerosol paint.

In recognition of our strong technology and production development capability, our key operating subsidiary, Guangzhou Botny, has been accredited as High-tech enterprise (高新技術企業) since 2008.

As at the Latest Practicable Date, we had registered in the PRC six invention patents and 12 utility model patents. For more details, please refer to the section headed “Business — Research and development” in this listing document.

Diversified product portfolio

We are engaged in the design, development, manufacture and sale of a wide range of automotive beauty and maintenance products including auto cleaning and maintenance products (such as auto interior decoration cleaning products and tyre and wheel cleaning and care products), paint and coating (such as chrome aerosol spray), winter and summer specials (such as refrigerant and cold cranking agent) and air-fresheners. We also design, manufacture and sell personal care products (such as foaming facial wash, sunscreen, moisturiser, deodoriser and hand wash) and other products including household products (such as paint and floor polish). A majority of the products we sold during the Track Record Period were aerosol products.

We are equipped with high-tech automated production facilities and we believe that our technological prowess enables us to develop and produce diversified and customised products, in particular, products with environmental friendly formulations, such as water-based and organic products.

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Well-established business relationship with our OBM customers

We supply many of our OBM products through our network of distributors across the PRC. As at 31 December 2018, we had over 190 contractual distributors and over 600 non-contractual distributors. We have well-established relationships with our distributors. Our top five OBM customers during the Track Record Period which were all contractual distributors have over three years of relationship with us.

We believe that we are able to leverage on the strength of the distribution channels of our distributors to efficiently distribute our products and reach consumers in different regions of the PRC.

Experienced management team

We have a management team with extensive experience and knowledge in corporate management and/or aerosol industry in the PRC.

Our executive Director, chairman and chief executive officer, Mrs. Lin, joined our Group in August 2000 and is responsible for formulating business strategies and planning the business development of our Group. Our executive Director and the head of our procurement department, Ms. Flora Lin, has over 6 years of experience in the content filling of aerosol cans and non-aerosol cans and the design, development, manufacture and sale of aerosol and non-aerosol products. Our executive Director and the head of our sales and marketing department, Mr. Alex Lin, has over 4 years of experience in the content filling of aerosol cans and non-aerosol cans and the design, development, manufacture and sale of aerosol and non-aerosol products. He has been the director of the Aerosol Committee of China Packaging Federation* (中國包裝聯合會氣霧劑專業委員會) since October 2014, the vice president of Guangdong Chamber of Automotive Supplies* (廣東省汽車用品商會) since December 2015 and the vice president of Guangdong Association for Standardisation* (廣東省標準化協會) since December 2017. Our executive Director and the head of our safety department and quality control and technical supervision department, Mr. Yang, is responsible for overseeing the quality checking and research and development of our Group and has over 18 years of experience in quality management and technical supervision in aerosol manufacturing and filling. Our head of production department, Mr. Zhang Zhiming, joined our Group in February 2002 and is responsible for the overall management of the production of our Group.

Please refer to the biographies of our Directors and senior management team in the section headed “Directors, senior management and employees” of this listing document.

Our Directors believe that the extensive experience and technical know-how of our management team, as well as that of our skilled employees, are essential to our success and further development.

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BUSINESS STRATEGIES

We plan to further develop our OBM business

We believe that developing our OBM business is the most effective way to establish our own brand image so as to gain wide market recognition in the PRC and our overseas markets and obtain a higher profit margin of our business. We therefore plan to allocate more resources to our OBM business, and further develop our OBM business through the following business strategies:

1. Broadening the international markets of our OBM products

During the Track Record Period, we supplied most of our OBM products in the PRC. According to the CIC Report, the PRC is one of the leading countries exporting aerosol products to overseas markets and the automotive beauty and maintenance market is one of the essential downstream markets for aerosol products. The total export volume of aerosol products used in the automotive beauty and maintenance market in the PRC increased from approximately 49.8 million units in 2014 to approximately 76.5 million units in 2018, representing a CAGR of approximately 11.3%. With an increasing number of young generations purchasing new cars and with an increasing demand for automotive beauty and maintenance services in the global market, the total export volume of aerosol products used in the automotive beauty and maintenance market from China is expected to grow at a CAGR of 4.8% between 2018 and 2023. Our Directors consider there is a market potential for our automotive beauty and maintenance products in overseas markets, in particular the Middle East, India and the Philippines.

In 2013, we started to sell our OBM products under the BOTNY (保賜利) brand to overseas markets. For the three years ended 31 December 2018, overseas sales of our OBM products amounted to approximately HK\$6.1 million, HK\$8.6 million and HK\$8.3 million, representing approximately 1.2%, 1.7% and 1.4% of our total revenue, respectively. While there was an increase of approximately 40.9% in overseas sales of our OBM products for the year ended 31 December 2017, overseas sales of our OBM products decreased by approximately 3.7% for the year ended 31 December 2018, as compared to the previous year, primarily due to the cessation of our sales to customers in Countries subject to International Sanctions and Sanctioned Persons during 2018. Irrespective of such slight dip, overseas sales of our OBM products increased at a CAGR of 16.6% during the period from 2016 to 2018. In particular, sales of our OBM products to Pakistan increased from approximately HK\$0.3 million for the year ended 31 December 2016 to approximately HK\$2.9 million for the year ended 31 December 2018 and sales of our OBM products to the Philippines increased from approximately HK\$0.2 million for the year ended 31 December 2016 to approximately HK\$2.1 million for the year ended 31 December 2018.

2. Continuing to implement our e-commerce strategies

According to National Bureau of Statistics of China, the penetration rate of internet users in China increased from 47.9% in 2014 to 59.6% in 2018, which has helped to boost the development of the e-commerce market in China in recent years. The significant growth in online market creates more opportunities for the sales of aerosol products in China, and enables the manufacturers to carry out their sales business in a more efficient and effective way.

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According to the CIC Report, with the continued increase in the internet penetration rate and the rapid development of the e-commerce market in the PRC, consumers have become accustomed to online shopping, and thus the expansion of online channels has provided great opportunities for the continued development of the automotive beauty and maintenance market and aerosol product market. The penetration rate of online channels for automotive beauty and maintenance products and services in the market (except 4S stores) in terms of sales revenue increased gradually from 5.1% in 2015 to 16.0% in 2018. With continuous increase in internet penetration and changing customer behavior, the penetration rate of online channels is expected to continue increasing, which in turn provide greater growth potential in the automotive beauty and maintenance market. Car owners between the ages of 20 and 35 years old accounted for approximately 50% to 55% of total car owners in China in 2018. These people are expected to be the major consumption force of the automotive aftermarket. In particular, they are more inclined to online consumption, and this consumption habit is likely to drive the development of the online channels in the automotive beauty and maintenance market.

We have set up an online retail store “保賜利旗艦店” at Tmall and an online retail store “保賜利京東自營旗艦店” at JD.com, and may consider establishing other online platform(s) to further expand the sales of our automotive beauty and maintenance products, personal care products and other products. Revenue attributable to our online stores only contributed approximately 0.3% of our total revenue for each of the two years ended 31 December 2017 and approximately 1.5% of our total revenue for the year ended 31 December 2018. We believe that further penetration into online platforms through our marketing and promotional activities will allow us to increase our sales, enhance our brand recognition and achieve a broader consumer base. Please refer to the section headed “Business — Business strategies — We plan to further develop our OBM business — 4. Further enhancing our brand recognition, particularly among young people in the PRC” in this listing document for more details on our marketing and promotion efforts.

3. *Launching a new series of automotive beauty and maintenance products, 保寶龍, under our BOTNY (保賜利) brand*

According to the CIC Report, car owners between the ages of 20 and 35 years old accounted for approximately 50% to 55% of total car owners in China in 2018. Young generation advocates individualism and they prefer to decorate their automobiles with easy-applied automotive beauty and maintenance products. These people are the major consumption force of the automotive aftermarket.

We have launched a new series of automotive beauty and maintenance products, 保寶龍, under our BOTNY (保賜利) brand together with our new slogan “讓汽車美容養護更簡單 (Easy Car Care Easy Life)” in October 2018 initially through online platforms. We have also sold our products under our new series through our distributors. This new brand targets young car owners in the PRC and the introduction of this new series is for the repositioning of our corporate image and for broadening our clientele. We have engaged a reputable designer, Dongdao Creative Branding Group (東道品牌創意集團), which has designed the logos for various established institutions and high-profile events including the 2016 G20 Hangzhou Summit, BRICS 2017 China and The Belt and Road, to design the logo of our new 保寶龍 series. Whilst we believe in the growth potential of our products under our new 保寶龍 series, as it takes time to establish a new line of products, we expect the other products under our BOTNY (保賜利) brand to remain our main revenue driver in the near future.

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4. Further enhancing our brand recognition, particularly among young people in the PRC

We plan to further build up brand loyalty of consumers through marketing and promotion campaigns to reduce our reliance on distributors as a distribution channel. We will keep up with our current strategies in promoting our brand including increasing our interaction with young people through social media and other online platforms and sponsorship to pop music concerts. Please refer to the section headed “Business - Marketing and promotion” in this listing document for more details.

We plan to further expand into the personal care products market in the PRC

According to the CIC Report, the sales volume of aerosol products used in the personal care products market in the PRC increased significantly from approximately 267.6 million units in 2014 to approximately 393.8 million units in 2018, representing a CAGR of approximately 10.1%. Driven by the expansion of distribution channels for aerosol products and with the increasing purchasing power enjoyed by consumers, the sales volume of aerosol products used in the personal care products market is forecasted to rise continuously at a CAGR of 6.9% between 2018 and 2023. Our Directors consider there is a market potential for the personal care products in the PRC.

Whilst we focus on the supply of automotive beauty and maintenance products, we have the vision to explore markets with growth potential. In March 2018, we acquired Guangzhou Euro Asia which is primarily engaged in the design, development, manufacture and sale of personal care products. For the three years ended 31 December 2018, revenue attributable to our personal care products was approximately HK\$44.5 million, HK\$59.3 million and HK\$125.9 million, respectively, indicating an increasing demand for our personal care products.

Our major personal care products include sunscreens and moisturisers. In June 2018, in view of the growth in the sales of our personal care products, we installed a new dyadic packaging production line for the production of personal care products.

We plan to further enhance our research and development ability

Since 2017, we have been focusing on the research and development of environmental friendly products and more cost effective products in response to perceived market trends and at the request of our customers. We plan to adopt similar research and development strategies going forward. Please refer to the section headed “Business – Our products – New products launched in 2018” in this listing document for more details.

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OUR PRODUCTS

Our products can be broadly classified into the following categories: (i) automotive beauty and maintenance products including auto cleaning and maintenance products (such as auto interior decoration cleaning products and tyre and wheel cleaning and care products), paint and coating (such as chrome aerosol spray), winter and summer specials (such as refrigerant and cold cranking agent) and air-fresheners; (ii) personal care products (such as foaming facial wash, sunscreen, moisturiser, deodoriser and hand wash); and (iii) other products including household products (such as paint and floor polish), packaging materials (such as dip-tubes, valves and paper-boxes) and car cleaning kits and tools. Set out below is a breakdown of our Group's revenue by product categories during the Track Record Period:

	Year ended 31 December					
	2016		2017		2018	
	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>
Automotive beauty and maintenance products						
- Aerosol products	412,739	78.3%	390,573	75.3%	417,474	68.3%
- Non-aerosol products	<u>63,551</u>	<u>12.1%</u>	<u>59,077</u>	<u>11.4%</u>	<u>62,755</u>	<u>10.3%</u>
Subtotal	476,290	90.4%	449,650	86.7%	480,229	78.6%
Personal care products	44,507	8.4%	59,339	11.4%	125,920	20.6%
Other products (<i>Note</i>)	<u>6,058</u>	<u>1.2%</u>	<u>9,392</u>	<u>1.9%</u>	<u>4,715</u>	<u>0.8%</u>
Total	<u><u>526,855</u></u>	<u><u>100.0%</u></u>	<u><u>518,381</u></u>	<u><u>100.0%</u></u>	<u><u>610,864</u></u>	<u><u>100.0%</u></u>

Note: "Other products" include household products (such as paint and floor polish), packaging materials (such as dip-tubes, valves and paper-boxes) and car cleaning kits and tools.

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The following table sets forth our revenue by product categories for each of our OBM and CMS business models during the Track Record Period:




	Year ended 31 December					
	2016		2017		2018	
	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>	<i>HK\$'000</i>	<i>% of revenue</i>
OBM products						
Automotive beauty and maintenance products						
- Aerosol products	250,237	47.5%	252,454	48.7%	262,872	43.0%
- Non-aerosol products	52,023	9.9%	53,527	10.3%	57,019	9.3%
Household products	<u>1,106</u>	<u>0.2%</u>	<u>1,139</u>	<u>0.2%</u>	<u>907</u>	<u>0.2%</u>
Subtotal	<u>303,366</u>	<u>57.6%</u>	<u>307,120</u>	<u>59.2%</u>	<u>320,798</u>	<u>52.5%</u>
CMS products						
Automotive beauty and maintenance products						
- Aerosol products	162,502	30.9%	138,119	26.7%	154,602	25.3%
- Non-aerosol products	11,528	2.2%	5,550	1.1%	5,736	1.0%
Personal care products	44,507	8.4%	59,339	11.4%	125,920	20.6%
Household products	<u>4,717</u>	<u>0.9%</u>	<u>7,937</u>	<u>1.5%</u>	<u>3,691</u>	<u>0.6%</u>
Subtotal	<u>223,254</u>	<u>42.4%</u>	<u>210,945</u>	<u>40.7%</u>	<u>289,949</u>	<u>47.5%</u>
Others <i>(Note)</i>	<u>235</u>	<u>0.0%</u>	<u>316</u>	<u>0.1%</u>	<u>117</u>	<u>0.0%</u>
Total	<u><u>526,855</u></u>	<u><u>100%</u></u>	<u><u>518,381</u></u>	<u><u>100%</u></u>	<u><u>610,864</u></u>	<u><u>100.0%</u></u>

Note: "Others" include packaging materials (such as dip-tubes, valves and paper-boxes) and car cleaning kits and tools.

The shelf life of our products is usually up to five years. A majority of the products we sold during the Track Record Period were aerosol products.

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We set out below our major products under each product series which we sold on either OBM or CMS basis during the Track Record Period:

Product series	Product	Sample photo	Packaged in ml/g/L/Oz	Selling price (or price range) per unit ^(Note) during the Track Record Period HK\$	Quantity sold			Revenue		
					2016 units	2017 units	2018 units	For the year ended 31 December 2016 HK\$'000	2017 2018 HK\$'000 HK\$'000	
Automotive beauty and maintenance products Auto cleaning and maintenance products	Botny sticker remover (multi-functional)		450ml	1.11 to 22.14	391,134	3,137,946	4,244,788	2,192	17,449	24,765
	Botny de-rust lubricating spray		400ml	3.28 to 17.27	4,285,359	4,215,739	4,350,983	22,215	21,560	23,709
	Botny leather and tyre wax		450ml	3.00 to 13.51	2,116,774	2,225,742	2,081,954	9,655	10,037	9,961

BUSINESS

Product series	Product	Sample photo	Packaged in ml/g/L/Oz	Selling price (or price range) per unit ^(Note) during the Track Record Period HK\$	Quantity sold			Revenue		
					For the year ended 31 December			For the year ended 31 December		
					2016 units	2017 units	2018 units	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Paint and coating	Botny aerosol paint (No. 39 black)		400ml	3.10 to 16.49	1,778,202	1,764,622	1,750,405	7,385	7,247	7,816
	Botny aerosol paint (No. 40 white)		400ml	3.36 to 16.56	1,097,392	1,152,039	1,133,191	4,546	4,716	5,034
	Botny chrome effect spray paint		300ml	4.26 to 23.53	559,768	664,309	528,811	3,361	3,867	3,274

BUSINESS

Product series	Product	Sample photo	Packaged in ml/g/L/Oz	Selling price (or price range) per unit ^(Note) during the Track Record Period HK\$	Quantity sold			Revenue		
					2016 units	2017 units	2018 units	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Winter and summer specials	Botny R-134a refrigerant (tinplate can)		250g	7.03 to 16.26	150,945	265,516	269,924	1,312	2,206	2,687
	Botny R-134a refrigerant (tinplate can)		200g	5.49 to 11.97	55,230	109,241	156,360	426	764	1,321
	Botny low temperature starting agent (400ml)		400ml	4.20 to 15.14	190,201	167,799	182,147	1,101	960	1,090


BUSINESS

Product series	Product	Sample photo	Packaged in ml/g/L/Oz	Selling price (or price range) per unit ^(Note) during the Track Record Period HK\$	Quantity sold			Revenue		
					For the year ended 31 December			For the year ended 31 December		
					2016 units	2017 units	2018 units	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Air-fresheners	Botny air freshener (lemon flavour)		330ml	3.75 to 6.00	50,468	51,951	45,570	251	252	227
	Botny air freshener (jasmine flavour)		330ml	3.75 to 5.83	42,982	47,136	36,084	213	229	181
	Botny air freshener (international flavour)		330ml	3.64 to 13.81	84,565	88,187	85,798	419	423	433

BUSINESS

Product series	Product	Sample photo	Packaged in ml/g/L/Oz	Selling price (or price range) per unit ^(Note) during the Track Record Period HK\$	Quantity sold			Revenue		
					For the year ended 31 December			For the year ended 31 December		
					2016 units	2017 units	2018 units	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Personal care products Sunscreens	Protective spray		220ml	2.52 to 2.60	NA	97,931	492,517	NA	247	1,274
	Bright isolation icy soothing spray		120ml	4.16 to 4.20	NA	NA	538,520	NA	NA	2,242
Skin care products	Soothing moisturising spray		50ml	4.78 to 5.56	NA	247,297	550,016	NA	1,257	3,050
	Soothing moisturising spray		120ml	5.99 to 7.53	NA	95,414	650,365	NA	572	4,104
Facial products	Facial cleansing foam		120ml	4.35 to 4.47	596,294	NA	249,849	2,597	NA	1,111
	Rose cleansing mousse		150ml	9.85 to 12.78	10,786	68,705	59,349	138	701	607
	Rose cleansing foam		150ml	12.61 to 13.08	N/A	14,998	30,067	N/A	189	393
Fragrance	Air-fresheners (original flavour)		8Oz	3.91 to 8.45	595,590	738,810	2,967,606	4,399	4,882	24,275
	Air-fresheners (vanilla flavour)		102g	4.26 to 6.28	273,264	190,608	324,576	1,527	958	1,942

BUSINESS

Product series	Product	Sample photo	Packaged in ml/g/L/Oz	Selling price (or price range) per unit ^(Note) during the Track Record Period HK\$	Quantity sold			Revenue		
					For the year ended 31 December			For the year ended 31 December		
					2016 units	2017 units	2018 units	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000
Hair treatment products	Hair set and keep spray		45g	3.74 to 6.07	121,590	281,834	590,328	461	1,056	2,263
	Hair set and keep spray		180g	5.78 to 6.89	352,281	998,056	1,083,888	2,371	6,628	7,369
	Hair set and keep spray		180g	5.98 to 6.21	356,620	818,398	633,812	2,162	4,895	3,900
	(export to Korea)									
Household products	Botny deicer		500ml	7.55 to 74.91	24,557	20,216	30,342	213	174	272

Note: The prices of our products are denominated in RMB or USD. They are presented in Hong Kong Dollars in the above table. For illustrative purposes, the conversion rates are set out below:

For the year ended 31 December 2016:

HK\$0.8558 = RMB1.00

HK\$7.7620 = US\$1.00

For the year ended 31 December 2017:

HK\$0.8673 = RMB1.00

HK\$7.7921 = US\$1.00

For the year ended 31 December 2018:

HK\$0.8431 = RMB1.00

HK\$7.8371 = US\$1.00

BUSINESS

OBM products under our BOTNY (保賜利) brand and other brands

Our OBM products represent original brand manufacturing products, that is, products which we design, develop, manufacture and sell under our own or licensed brand names. We supply our OBM products under a number of brands including BOTNY (保賜利), ATM, ETOMAN (已度明), NISSEI, WIN (勝彩), FOX-D (狐狸), PISCIS (百麗時) and PARLUX (派樂士). The trademarks of these brands are owned by Guangzhou Botny, except for the trademarks of FOX-D (狐狸) and WIN (勝彩) which are owned by China Motor Management Services Limited, a company indirectly wholly-owned by Mr. Lin. Our award-winning BOTNY (保賜利) brand is our signature brand. Among other awards, our BOTNY (保賜利) brand was selected as one of the Top 100 Automotive Post-market Brands* (2018 中國汽車後市場百強品牌) by Global Automotive Media Recommendation Center* (全球汽車媒體聯薦中心) and the CIAACE Committee* (CIAACE中國汽車用品暨改裝汽車展覽會組委員會) in 2018 and the ternary catalytic restoration agent (三元催化修復劑) under our BOTNY (保賜利) brand was awarded 2016 Recommended Product* (2016年推薦大獎) by Auto Magazine* (汽車雜誌). For the three years ended 31 December 2018, we derived approximately 57.6%, 59.2% and 52.5% of our revenue from our supply of OBM products, respectively. Among the sales of our OBM products, approximately 77.0%, 80.4% and 81.6% were attributable to our BOTNY (保賜利) brand, respectively.

Set out below is a breakdown of our revenue attributable to OBM products by brands during the Track Record Period:

Brand Name	Year ended 31 December					
	2016		2017		2018	
	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue
BOTNY (保賜利) (Note 1)	233,565	44.3%	247,023	47.7%	261,624	42.8%
ATM	22,321	4.2%	17,610	3.4%	16,954	2.8%
FOX-D (狐狸)	9,773	1.9%	9,366	1.8%	8,652	1.4%
PISCIS (百麗時)	17,887	3.4%	16,208	3.1%	16,977	2.8%
PARLUX (派樂士)	13,424	2.5%	11,272	2.2%	10,546	1.7%
Other brands (Note 2)	6,396	1.3%	5,641	1.0%	6,045	1.0%
	<u>303,366</u>	<u>57.6%</u>	<u>307,120</u>	<u>59.2%</u>	<u>320,798</u>	<u>52.5%</u>

Notes:

1. It includes the sales of our new series of automotive beauty and maintenance products, 保寶龍, under our BOTNY (保賜利) brand launched in October 2018.
2. "Other brands" represents ETOMAN (已度明), NISSEI, WIN (勝彩), 魔彩 and 栢施.

BUSINESS

New products launched in 2018

In response to perceived market trends and customers' requests, we strive to upgrade our existing products, lower our production cost through technological upgrade and launch new products including new OBM products under our BOTNY (保賜利) brand. Please refer to the section headed "Business - Business strategies" in this listing document for more details on our target new markets. In 2018, we launched a new series of automotive beauty and maintenance products, 保寶龍, under our BOTNY(保賜利) brand which includes the following products:

Product	Mode of sales during the Track Record Period	Description	Sample pictures	Average selling price per packing for the year ended 31 December 2018 <i>(Notes 1 and 2)</i>
Car anti-bacterial agent (車內抗菌劑)	Sold on OBM basis under our 保寶龍 series of our BOTNY (保賜利) brand	An anti-bacterial sanitiser and deodoriser for cars		HK\$8.82
Tyre rejuvenator (輪胎泡沫光亮劑)	Sold on OBM basis under our 保寶龍 series of our BOTNY (保賜利) brand	A cleaning agent for removing deposits on tyre surface and preventing the cracking and corrosion of tyres		HK\$5.95
Glass waterproof agent (玻璃防霧劑)	Sold on OBM basis under our 保寶龍 series of our BOTNY (保賜利) brand	A cleaning and anti-mist agent which forms a transparent, protective layer on glass such as car windows		HK\$7.09

Notes:

1. The average selling price of each product refers to the revenue generated from sales of such product divided by the number of units sold for the year ended 31 December 2018.
2. The prices of our products are denominated in RMB or USD. They are presented in Hong Kong Dollars in the above table. For illustrative purposes, the conversion rates for the year ended 31 December 2018 are set out below:

For the year ended 31 December 2018

HK\$0.8431 = RMB1.00

HK\$7.8371 = US\$1.00

BUSINESS

We have been actively marketing this new series through various channels including trade fairs and exhibitions, television program sponsorship and the provision of product samples to supermarkets, and have sold such products at our online store at Tmall and through our distributors. The introduction of this new series is for repositioning our corporate image and to broaden our clientele. With our new 保寶龍 series, we intend to position our automotive beauty and maintenance products as user-friendly products and interact directly with our end consumers, in particular young car owners who made up a majority of total car owners in the PRC according to the CIC Report. The launch of this new brand also comes with the slogan “讓汽車美容養護更簡單 (Easy Car Care Easy Life)”.

Going forward, we plan to adopt a similar research and development and marketing strategy and plan to launch more environmental friendly products and OBM products.

OUR BUSINESS MODEL

Revenue breakdown by business model

Set out below is a breakdown of our revenue by business model during the Track Record Period:

	Year ended 31 December					
	2016		2017		2018	
	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue
OBM						
contractual distributors (Note 1)	189,032	35.9%	194,275	37.5%	205,091	33.6%
non-contractual distributors (Note 2)	95,038	18.0%	91,311	17.6%	85,706	14.0%
online retail stores (Note 3)	1,613	0.3%	1,775	0.3%	8,886	1.4%
overseas OBM customers	6,102	1.2%	8,595	1.7%	8,280	1.4%
other OBM customers (Note 4)	11,581	2.2%	11,164	2.1%	12,835	2.1%
Subtotal	<u>303,366</u>	<u>57.6%</u>	<u>307,120</u>	<u>59.2%</u>	<u>320,798</u>	<u>52.5%</u>
CMS						
Overseas	157,954	30.0%	123,912	23.9%	181,624	29.8%
PRC	<u>65,300</u>	<u>12.4%</u>	<u>87,033</u>	<u>16.8%</u>	<u>108,325</u>	<u>17.7%</u>
Subtotal	<u>223,254</u>	<u>42.4%</u>	<u>210,945</u>	<u>40.7%</u>	<u>289,949</u>	<u>47.5%</u>
Others (Note 5)	<u>235</u>	—	<u>316</u>	<u>0.1%</u>	<u>117</u>	<u>0.0%</u>
Total	<u>526,855</u>	<u>100.0%</u>	<u>518,381</u>	<u>100.0%</u>	<u>610,864</u>	<u>100.0%</u>

BUSINESS

Notes:

1. Our contractual distributors, which entered into distribution agreements with us, sell our OBM products to their sub-distributors, other outlets (including supermarkets, community stores, convenience stores, authorised car dealers, automotive beauty and maintenance service providers as well as online retailers) and end consumers. For details of the terms of distribution agreements, please refer to the section headed “Business — Our customers — Our OBM customers — (1) Distributors — (i) Contractual distributors — Key terms of distribution agreements” in this listing document.
2. Our non-contractual distributors include our OBM customers which did not enter into distribution agreements with us or few of which failed to execute the distribution agreement properly (i.e. execution of distribution agreements without affixing the company chop). Our major non-contractual distributors include trading companies and wholesalers or retailers of automotive beauty and maintenance products, paint and other chemicals, which may also sell our products to their sub-distributors.
3. Online retail stores represent sales from customers who purchased through our two online stores “保賜利旗艦店” at Tmall and “保賜利京東自營旗艦店” at JD.com.
4. Other OBM customers primarily include trading companies, wholesalers or retailers of automotive beauty and maintenance products, paint, chemicals and hardware and individuals which purchased our OBM products directly from us.
5. Others represent the sale of packaging materials (such as dip-tubes, valves and paper-boxes) and car cleaning kits and tools.

Please refer to the section headed “Business — Inventory control” in this listing document for more details of the difference between the OBM business model and CMS business model in terms of placing of purchase orders and inventory control.

OBM business model

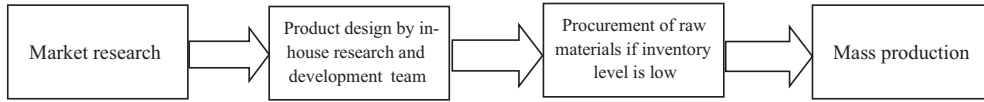
Our OBM products represent original brand manufacturing products, that is, products which we design, develop, manufacture and sell under our own or licenced brand names. Please refer to the section headed “Business — Our products” in this listing document for more details about our OBM products. For the three years ended 31 December 2018, we derived approximately 57.6%, 59.2% and 52.5% of our revenue from our supply of OBM products, respectively. Among the sales of our OBM products, approximately 77.0%, 80.4% and 81.6% were attributable to our BOTNY (保賜利) brand. Our OBM customers mainly comprise contractual and non-contractual distributors in the PRC, customers who purchase through our online retail stores, overseas OBM customers and other OBM customers. In 2013, we started to sell our OBM products under our BOTNY (保賜利) brand to overseas markets. For the three years ended 31 December 2018, overseas sales of our OBM products amounted to approximately HK\$6.1 million, HK\$8.6 million and HK\$8.3 million respectively.

We also have two online stores “保賜利旗艦店” at Tmall and “保賜利京東自營旗艦店” at JD.com.

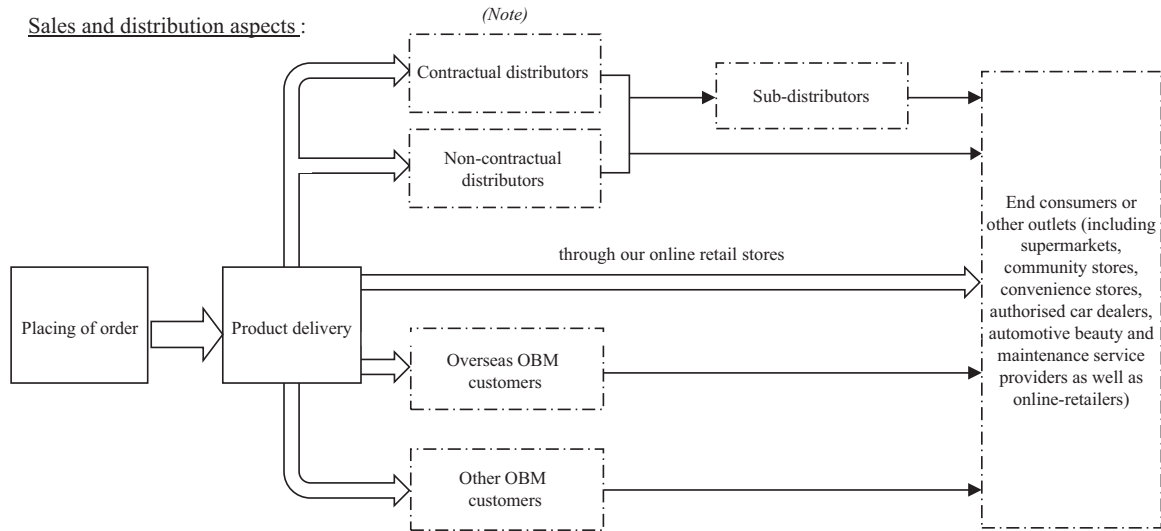
BUSINESS

The following diagram illustrates generally our *OBM business* model:

Production aspects :



Sales and distribution aspects :



Note: For details of each type of our customers, please refer to the section headed “Business — Our customers” in this listing document.

CMS business model

Our CMS products represent contract manufacturing service products, that is, products we manufacture which are marketed and sold under our customers’ brand names. Our CMS products may be manufactured on OEM basis or ODM basis. In the case of OEM, we manufacture our CMS products in accordance with our customers’ designs and specifications. Our customers usually provide the product formulae and specifications. In the case of ODM, we design, develop and manufacture our CMS products. Our customers usually provide us with the packaging materials. For the three years ended 31 December 2018, we derived approximately 42.4%, 40.7% and 47.5% of our revenue from our supply of CMS products.

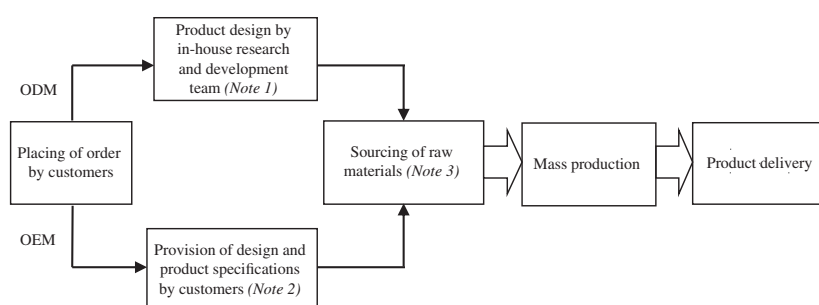
BUSINESS

The following table sets forth our revenue by business model for our CMS products during the Track Record Period:

	Year ended 31 December					
	2016		2017		2018	
	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue
OEM basis	52,062	23.3%	65,212	30.9%	127,219	43.9%
ODM basis	<u>171,192</u>	<u>76.7%</u>	<u>145,733</u>	<u>69.1%</u>	<u>162,730</u>	<u>56.1%</u>
Total revenue for CMS products	<u>223,254</u>	<u>100%</u>	<u>210,945</u>	<u>100%</u>	<u>289,949</u>	<u>100%</u>

Our major CMS customers include: (i) overseas brand owners or their outsourcing agent companies; (ii) export and trading companies, which export our CMS products to overseas countries; and (iii) PRC brand owners or their outsourcing agent companies. We have established approximately 3 to 10 years of business relationship with our top five customers during the Track Record Period which were all CMS customers. For the three years ended 31 December 2018, based on the locations of the registered offices of our customers, sales derived from Japan accounted for approximately 20.2%, 15.1% and 12.6%, and sales derived from the America accounted for approximately 0.7%, 1.0% and 9.5% of our revenue, respectively. For details, please refer to the section headed “Business — Sales and distribution — Geographical coverage” in this listing document.

The following diagram illustrates generally our CMS business model:



Notes:

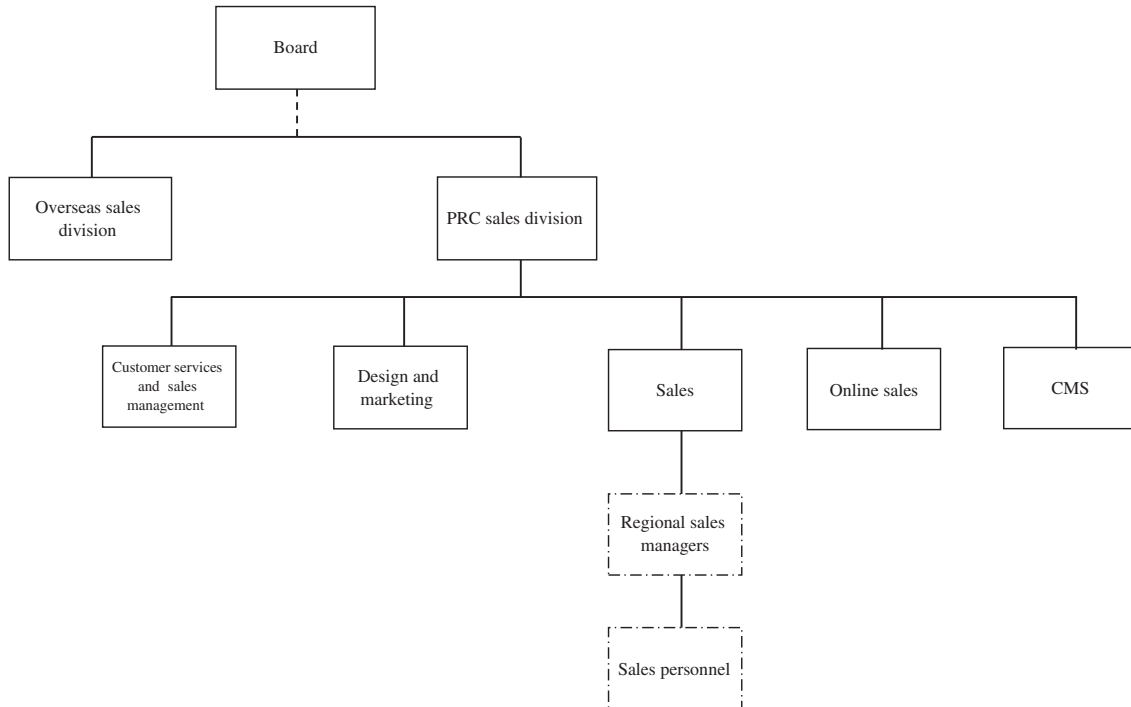
1. In the case of ODM, we usually provide the product formulae and specifications to our customers.
2. In the case of OEM, our customers usually provide the product formulae and specifications.
3. Raw materials, including concentrates and packaging materials, can be either provided by us or our customers, depending on our customers' requirements.

BUSINESS

SALES AND DISTRIBUTION

Structure and management of sales and marketing

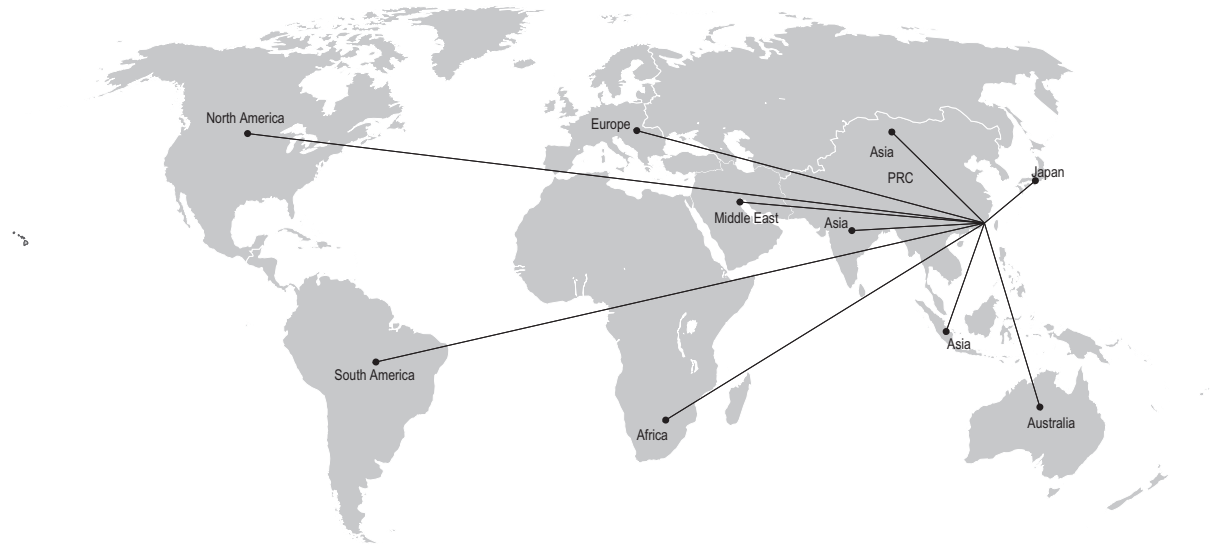
Our sales and marketing department is principally responsible for monitoring sales, marketing and the activities and performance of our distributors. Our sales and marketing department has two divisions which are responsible for overseas sales and PRC sales, respectively. Our PRC sales division is further divided into the following teams: (i) a customer services and sales management team; (ii) a design and marketing team; (iii) a sales team consisting of regional sales managers and their respective subordinate sales personnel; (iv) an online sales team; and (v) a CMS team. As at the Latest Practicable Date, our sales and marketing department had 72 employees. Below is a chart illustrating the structure of our sales and marketing department:



BUSINESS

Geographical coverage

The map below sets forth the geographic regions covered by our sales network (based on ports of destination/location of customers) as at 31 December 2018:



Note: Details of the countries and our sales network covered under the geographic regions are set out in the following page.

International Sales Network



PRC Sales Network

BUSINESS

The table below sets forth the geographical breakdown of our revenue (based on the locations of the registered offices of our customers) for the years indicated:

	Year ended 31 December					
	2016		2017		2018	
	HK\$'000	% of revenue	HK\$'000	% of revenue	HK\$'000	% of revenue
PRC (Note 1)	362,799	68.9%	385,874	74.4%	437,322	71.6%
Japan (Note 1)	106,270	20.2%	78,101	15.1%	76,739	12.6%
Asia (Note 2)	37,255	7.1%	34,960	6.7%	23,911	3.9%
Middle East (Note 3)	12,221	2.3%	10,078	1.9%	9,071	1.5%
America (Note 4)	3,527	0.7%	4,959	1.0%	58,312	9.5%
Others (Note 5)	4,783	0.8%	4,409	0.9%	5,509	0.9%
Total	526,855	100.0%	518,381	100.0%	610,864	100.0%

Notes:

1. PRC represents mainland China exclusive of Hong Kong, Taiwan and Macau. It includes sales generated from our two online stores “保賜利旗艦店” at Tmall and “保賜利京東自營旗艦店” at JD.com.

Our PRC sales include sales to certain export and trading companies which assist us in exporting our products to our CMS customers overseas. For the two years ended 31 December 2017 and for the year ended 31 December 2018, we sold our CMS products to two and three major export and trading companies in the PRC, respectively, which then exported our products primarily to Japan. For the three years ended 31 December 2018, among our sales to these major export and trading companies, approximately HK\$21.5 million, HK\$22.2 million and HK\$27.8 million were related to our CMS customers in Japan. Based on the aforesaid and our sales in Japan (based on the locations of the registered offices of our customers), our total sales in Japan amounted to approximately HK\$127.8 million, HK\$100.3 million and HK\$104.5 million, representing approximately 24.3%, 19.3% and 17.1% of our revenue, respectively.

2. Asia includes Hong Kong, Taiwan, India, the Philippines, Vietnam, Bengal, Sri Lanka, Pakistan, Indonesia, Nepal and Singapore. For the three years ended 31 December 2018, among the revenue generated from Asia, approximately HK\$26.2 million, HK\$20.8 million and HK\$5.1 million were derived from sales to European Asia Industrial which represented indent sales to a customer in the United States. Based on the aforesaid and our sales in America (based on the locations of the registered offices of our customers), our total sales in America amounted to approximately HK\$29.7 million, HK\$25.8 million and HK\$63.4 million, representing approximately 5.6%, 5.0% and 10.4% of our revenue, respectively.
3. Middle East includes Israel, Afghanistan, Turkey, Saudi Arabia, United Arab Emirates, Iraq, Lebanon, Yemen, Kuwait and Iran.
4. America includes the United States, Haiti, Chile, Columbia, Peru and Canada. Please refer to note 2 above for more details about the indent sales to our customer in the United States.
5. Others includes South Africa, Russia, Australia, Germany, Bulgaria, New Zealand, Greece and United Kingdom.

BUSINESS

Pricing

We adopt a cost-plus pricing policy. Our sales department preliminarily determines the prices of our products in consultation with our finance department for our Directors' approval. The selling prices of our products are generally determined with reference to general economic conditions, raw material costs, production cost, packaging requirements, research and development costs and the amount of individual purchase orders. In the case of CMS products, pricing is also affected by whether we or our customers are responsible for sourcing of raw materials.

In the case of OBM products, the unit prices of products are set out in our price list and are therefore predetermined and we do not adjust our standard price list often. We may offer discounts to our OBM contractual distributors in the PRC in accordance with our guideline. Other OBM customers are not entitled to participate in our incentive scheme but they may enjoy discounts of our products during our promotional activities. Please refer to the section headed "Business — Our customers — Our OBM customers — (1) Distributors — (i) Contractual distributors — Management of contractual distributors — Incentive scheme" in this listing document for more details. In the case of CMS products, pricing is subject to negotiation with our customers. We generally do not offer any discounts to our CMS customers.

We have the contractual right to pass on the increase in raw material prices to our distributors.

Payment

In the case of PRC sales of our OBM products, our distributors are generally required to pay us before delivery of products pursuant to the terms of the distribution agreements. Our bills are sometimes settled on monthly basis or on credit and the duration of the credit period is determined on the case-by-case basis taking into account the length of business relationship, the size, creditworthiness and payment record of our distributors.

In the case of overseas sales which substantially consist of sales of CMS products, we usually request full payment by way of telegraphic transfer or letter of credit within a certain period of time after the issue of the bill of lading. The duration of the credit period is determined on the case-by-case basis taking into account the creditworthiness and payment record of our customers. During the Track Record Period, the credit period generally ranged from 30 days to 120 days. In some cases, we may request a deposit up to 50% of the total contract sum before delivery of our products or allow our bills to be settled on monthly basis. We have taken out an export insurance policy to mitigate our risk exposure.

Logistics

Generally, for our PRC sales, we engage transportation companies at our own costs for delivering our products to our customers' warehouses or collection points in the cities designated by our customers.

BUSINESS

For our overseas sales, finished products may be delivered at our costs or our customers' costs to the locations designated by our customers depending on our delivery arrangement with each customer (i.e. whether it is free on board (FOB), cost, insurance and freight (CIF), ex-works (EXW) or otherwise). We may be responsible for the relevant customers clearance procedures at the PRC customs.

Seasonality

Our Directors are of the view that our business is not subject to any material seasonality during the Track Record Period.

OUR CUSTOMERS

Our OBM customers

In line with market practice in the PRC automotive beauty and maintenance industry, our OBM customers primarily include (1) distributors which (i) we have signed distribution agreements (i.e. the contractual distributors); and (ii) we have not signed distribution agreements (i.e. the non-contractual distributors); (2) customers who purchase our products through our two online retail stores on Tmall and JD.com; and (3) our overseas OBM customers. As at 31 December 2018, we had over 190 contractual distributors and over 600 non-contractual distributors. The distributors in turn sell our products to sub-distributors, other outlets (including supermarkets, community stores, convenience stores, authorised car dealers, automotive beauty and maintenance service providers as well as online retailers) and end consumers.

The table below sets forth the breakdown of our sales by sales channel for our OBM products for the years indicated:

	For the year ended 31 December					
	2016		2017		2018	
	<i>% of total revenue of OBM</i>		<i>% of total revenue of OBM</i>		<i>% of total revenue of OBM</i>	
	<i>HK\$'000</i>	<i>products</i>	<i>HK\$'000</i>	<i>products</i>	<i>HK\$'000</i>	<i>products</i>
Contractual distributors (<i>Note 1</i>)	189,032	62.4%	194,275	63.3%	205,091	63.9%
Non-contractual distributors (<i>Note 2</i>)	95,038	31.3%	91,311	29.7%	85,706	26.7%
Online retail stores (<i>Note 3</i>)	1,613	0.5%	1,775	0.6%	8,886	2.8%
Overseas OBM customers	6,102	2.0%	8,595	2.8%	8,280	2.6%
Other OBM customers (<i>Note 4</i>)	<u>11,581</u>	<u>3.8%</u>	<u>11,164</u>	<u>3.6%</u>	<u>12,835</u>	<u>4.0%</u>
Total OBM sales	<u><u>303,366</u></u>	<u><u>100.0%</u></u>	<u><u>307,120</u></u>	<u><u>100.0%</u></u>	<u><u>320,798</u></u>	<u><u>100.0%</u></u>

Notes:

- Our contractual distributors, which entered into distribution agreements with us, sell our OBM products to their sub-distributors, other outlets (including supermarkets, community stores, convenience stores, authorised car dealers, automotive beauty and maintenance service providers as well as online retailers) and end consumers.

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2. Our non-contractual distributors include our OBM customers which did not enter into distribution agreements with us or few of which failed to execute the distribution agreement properly (i.e. execution of distribution agreements without affixing the company chop). Our major non-contractual distributors primarily include trading companies and wholesalers or retailers of automotive beauty and maintenance products, paint and other chemicals, which may also sell our products to their sub-distributors.
3. Online retail stores represent sales from customers who purchased through our two online stores “保賜利旗艦店” at Tmall and “保賜利京東自營旗艦店” at JD.com.
4. Other OBM customers primarily include trading companies, wholesalers or retailers of automotive beauty and maintenance products, paints, chemicals and hardware and individuals which purchase our OBM products directly from us.

Relationship with our distributors

Our relationship with our distributors is a buyer and seller relationship. Revenue is recognised upon the transfer of control which generally occurs when our OBM products are delivered to our distributors or their designated persons (including sub-distributors that our distributors designate). We issue our invoices to our distributors or to our sub-distributors as per the relevant distributors' instructions. For the three years ended 31 December 2018, the amount of revenue which was directly settled by our Group's sub-distributors was approximately HK\$160.7 million, HK\$161.0 million and HK\$148.4 million, representing approximately 56.6%, 56.4% and 50.7% of our revenue attributable to our distributors (both contractual and non-contractual distributors), respectively. In the event that our sub-distributors purchase our products from our distributors, our sub-distributors could either (i) make purchase payments directly to our distributors who will then settle directly with us; or (ii) at the request of our distributors, directly settle to us the amounts of purchases made by our distributors from us, and to the best knowledge of our Directors, settle to our distributors the margins they charge to our sub-distributors. During the Track Record Period, when sub-distributors defaulted in payment, we sought to recover any outstanding amount from our distributors. For the three years ended 31 December 2018, the amounts of default payment from sub-distributors (i.e. amounts receivable from sub-distributors being impaired) were approximately HK\$0.4 million, HK\$0.2 million and HK\$83,000, respectively, of which approximately HK\$0.4 million, HK\$0.2 million and HK\$20,000 were recovered from the defaulted sub-distributors or the relevant distributors as at the Latest Practicable Date. As such, our Directors consider that the default payment by sub-distributors during the Track Record Period has immaterial credit risk exposure from our Group's overall perspective. As confirmed by our PRC Legal Advisers, our relationship with our distributors is a buyer and seller relationship rather than a principal and agent relationship, and our trading arrangement with our distributors and their sub-distributors does not contravene any applicable PRC laws and regulations in any material respects.

We believe that direct settlement by sub-distributors is beneficial to both our Group and our contractual and non-contractual distributors. Firstly, this helps reduce our Group's trade receivable turnover days. Instead of receiving payments from sub-distributors via distributors, we could speed up the settlement process by receiving payments directly from sub-distributors. Moreover, it achieves administrative efficiency for our distributors, as their obligation to remit to us payments from the sub-distributors has been lifted under the direct settlement arrangement. This can also facilitate our delivery arrangement as the products will generally be delivered after the full payment has been made. From the sub-distributors' perspective, delivery of products should be faster upon the direct

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settlement of sale proceeds and source of products can be assured. As advised by CIC, such direct settlement arrangement is in line with the practices in the automotive beauty and maintenance aerosol product industry in the PRC. Under the distribution agreements, our contractual distributors are entitled to a price discount to the amount of purchase from our Group if they are able to achieve or exceed the sales targets set by our Group. In general, we sell our products to our contractual distributors based on our standard ex-factory prices. Under the refined standardised distribution agreements, we have the right to set recommended retail prices for our products, and our contractual distributors undertake not to resell our products at prices below the ex-factory prices. In addition, according to our pricing policy, distributors are allowed to charge their customers a margin based on the ex-factory prices. Such policy aims to help our Group monitor the retail prices of our products. To the best knowledge of our Directors, our distributors charge their sub-distributors a margin and obtain economic benefits from such arrangement.

We believe that as a distributorship business model is suitable for us, there is no incentive for us to bypass our distributors and form direct business relationships with the sub-distributors. We could leverage on the clientele and sales and marketing experience of our distributors and ensure efficient distribution of products in different parts of the PRC through a distributorship business model. This saves us the resources to build business relationships with a vast number of individual customers in different parts of the PRC.

Distributor selection criteria

In selecting our distributors, we generally take into consideration the following factors:

- (i) geographical coverage of distributors;
- (ii) size of distributors (such as annual sales and number of employees);
- (iii) whether distributors hold a valid business licence and the financial resources of distributors;
- (iv) reputation and experience of the distributors; and
- (v) whether distributors are also distributing competing products.

(1) Distributors

According to the CIC Report, manufacturers of aerosol products rely on distributors to help expand their sales channels and to maintain a continuous demand for their aerosol products.

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(i) Contractual distributors

Contractual distributors of OBM products for a period are the distributors with which we have entered into distribution agreements for that period. We only enter into distribution agreements with distributors which in our opinion, have a relatively strong track record and the ability to expand our market shares. We set both annual and monthly sales targets for our contractual distributors. The size of sales targets varies and is subject to a number of factors including the designated market to which a distributor is assigned (for example, the market size and whether it is a new market), the track record of a distributor and the type of products being sold by a distributor (for example, the targeted sales of new products may be less). In return, contractual distributors are eligible to participate in our incentive scheme pursuant to which they may purchase our products at discounted prices. For details, please refer to the section headed “Business — Our customers — Our OBM customers — (1) Distributors — (i) Contractual distributors — Management of contractual distributors — Incentive scheme” in this listing document. If a distributor fails to meet our sales targets and we believe that its performance is unlikely to improve, we may terminate its distribution agreement. As at 31 December 2018, we had a nationwide network of over 190 contractual distributors in the PRC. We have well-established relationships with our contractual distributors. Our top five contractual distributors during the Track Record Period have over three years of relationship with us. We believe that we are able to leverage on the strength of the distribution channels of our distributors to efficiently distribute our products and reach consumers in different regions of the PRC.

The following table sets forth the number of our contractual distributors and the relevant movements during the Track Record Period:

	As at 31 December		
	2016	2017	2018
At the end of the previous year <i>(Note 1)</i>	241	231	210
Increase during the year <i>(Note 2)</i>	51	42	38
Decrease during the year <i>(Note 3)</i>	(61)	(63)	(56)
At the end of the year <i>(Note 1)</i>	<u>231</u>	<u>210</u>	<u>192</u>

Notes:

1. The number of our contractual distributors for a year is based on the number of distribution agreements we entered into with our distributors during that year.
2. Comprised (i) 15, 10 and 7 new contractual distributors, with which we entered into distribution agreements; and (ii) 36, 32 and 31 distributors which were our non-contractual distributors and other OBM customers in the immediately preceding year from which sales were generated during the period in question, for the three years ended 31 December 2018, respectively. As advised by our Directors, some of our non-contractual distributors (who from our view were eligible to participate in our incentive scheme) entered into distribution agreements with us as they might want to participate in our incentive scheme which is only open to our contractual distributors.

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given that their sales performance had been strong and they were capable of expanding our market share. For details, please refer to the section headed “Business — Our customers — Our OBM customers — (1) Distributors — (i) Contractual distributors — Management of contractual distributors — Incentive scheme” in this listing document.

3. Represented contractual distributors, of which the distribution agreements were not renewed in a particular year and comprised (i) 11, 10 and 5 distributors, in which case no sales were generated from them during the year and the subsequent year; and (ii) 50, 53 and 51 distributors, in which case we continue to conduct sales with them during the year and the subsequent year but the distribution agreements with the relevant distributors had already expired and they became our non-contractual distributors or other types of OBM customers, for the three years ended 31 December 2018, respectively. To the best of our Directors’ knowledge, among the distributors whose distribution agreements were not renewed, (i) 58, 56 and 53 distributors failed to achieve our sales targets; and (ii) 3, 7 and 3 distributors were unwilling to renew the distribution agreements for reasons such as their unwillingness to be bound by our sales targets, for the three years ended 31 December 2018, respectively.

As shown above, the number of our contractual distributors exhibited a decreasing trend during the Track Record Period, from 231 as at 31 December 2016 to 192 as at 31 December 2018. Our Directors attribute such decrease primarily to our effort to eliminate our contractual distributors which failed to meet our annual sales targets as set out in our distribution agreements. At the same time, we have increased the sales targets of certain major contractual distributors after taking into their account their historical sales performance and the growth potential of certain markets in the PRC.

Key terms of distribution agreements

We generally enter into distribution agreements with our distributors for a one-year term. The key terms of our refined standardised distribution agreement include:

1. Duration: One year.
2. Relationship: Buyer and seller.
3. Sales target and incentive scheme: Sales target is specified. Distributors are incentivised to achieve or exceed sales targets. The incentive scheme is set out in our guideline. There is no minimum purchase amount.
4. Non-exclusivity: Distributors are granted the non-exclusive distributorship in their designated area.
5. Designated distribution area: Distributors are not allowed to sell our products outside of their designated distribution areas. Any material deviation will give us the right to unilaterally terminate the distribution agreement. We also have the right to limit the number of sub-distributors in the designated distribution area.
6. Pricing policy: We have the right to adjust the prices at which we sell products to our distributors based on market conditions. We have the right to set a recommended retail prices for our products.

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7. Sub-distribution: Distributors have the right to appoint sub-distributors. They undertake to procure that their sub-distributors comply with certain terms of the distribution agreement including prompt settlement of our bills whenever we issue our invoices directly to the sub-distributors, our pricing policy, restriction against unfair competition practices and the anti-dumping provision. We are also entitled to recover any outstanding amounts from our distributors should the sub-distributors default in payment.
8. Resale price management: Distributors are required to resell our products at prices higher than the ex-factory prices.
9. Transportation costs: We are generally responsible for the delivery costs to a distributor's designated delivery location. If the quantity of a purchase is below our sales target, the distributor will be responsible for the delivery costs.
10. Access to information: Distributors are required to provide us with monthly sales and inventory data and other information including the names of customers and re-sell prices from time to time. We also have the right to inspect and examine more closely the sale of products by distributors.
11. Credit terms: Payment before delivery in general.
12. Return or exchange of products: Distributors are not allowed to return or exchange products except for defective products. We do not accept return of non-defective products.
13. Non-competition undertaking: Distributors undertake not to engage in unfair competition practices including cross-regional sale, predatory pricing and trade dumping. Distributors are required to set their sales strategies in consultation with us.
14. Confidentiality: Distributors undertake not to disclose any of our trade secrets or business information to any third party.
15. Protection of intellectual property right: Distributors undertake not to use, retain or disclose our technical information without our consent.
16. Business activities between employees and distributors: We are not responsible for any business activities between our employees and distributors and are not liable for any loss incurred in this connection.
17. Termination: We are entitled to unilaterally terminate a distribution agreement prior to the expiry of its term if: (i) a distributor fails to meet the monthly sales target for three consecutive months; (ii) a distributor maliciously frustrates the sale of our products for the benefit of our competitors with whom the distributor also has a business relationship; (iii) a distributor deviates any key terms of the distribution agreement; or (iv) the business licence held by the distributor is no longer valid.

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Management of contractual distributors

Contractual distributors

We generally enter into a distribution agreement with our contractual distributors in the PRC. We have standardised the terms of our distribution agreements and have devised internal guidelines in relation to, among other things, sales management, marketing and customer assessment. We believe that this helps us manage our contractual distributors efficiently in a consistent and systematic manner.

We have refined our guidelines and the terms of our distribution agreements to reinforce our control over contractual distributors, the details of which are set out below:

Resale price determination

Our contractual distributors purchase OBM products from us based on our standard ex-factory prices. Under our standardised distribution agreements, we have the right to adjust our ex-factory prices based on market conditions and our operational needs and the right to set recommended retail prices of our products. We have adopted a policy on recommended ex-factory prices and retail prices for our OBM products.

Also, pursuant to our standardised distribution agreements, our contractual distributors undertake not to engage in unfair competition practices including cross-regional sale, predatory pricing and trade dumping. They further undertake not to resell our products at prices below our ex-factory prices.

We seek to monitor the compliance of our contractual distributors of our distribution agreements through on-site inspections by our regional sales personnel.

Incentive scheme

In our distribution agreements, we set both annual and monthly sales targets for our contractual distributors who are incentivised to achieve or exceed sales targets. Depending on the type of products sold by the contractual distributors, if the total quantity of products purchased by a contractual distributor for a year exceeds a certain threshold, the contractual distributor will be entitled to a price discount within the range of approximately 1% to 5% to the amount of purchase from our Group in accordance with our guideline. A higher discount rate applies to automotive beauty and maintenance products in general and to the more lucrative products within each major product category. When contractual distributors are engaged in marketing and promotional activities, they may apply for additional discounts and we will approve their applications on a case-by-case basis. We may also offer additional discounts if we want to promote a particular product. Sale discounts are netted off from our revenue in the relevant accounts.

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Delivery of products and payment

Our contractual distributors submit a purchase order to us from time to time with specifications as to the type and quantity of OBM products. We then arrange for delivery of products to our contractual distributors or their designated persons according to the delivery dates agreed between the parties.

Our contractual distributors are generally required to pay us before delivery of products pursuant to the terms of the distribution agreements. In practice, we sometimes issue our invoices directly to the sub-distributors in the case where our contractual distributors on-sell our OBM products to them. Also, our bills are sometimes settled on monthly basis or on credit and the duration of the credit period is determined on the case-by-case basis taking into account the length of business relationship, the size, creditworthiness and payment record of the contractual distributors. Please refer to the section headed “Business — Sales and distribution — Payment” in this listing document for more details.

Access to information

We have a number of regional sales teams which oversee the activities and performance of our contractual distributors within their respective designated regions. We seek to monitor the compliance of our contractual distributors of our distribution agreements through on-site inspections by our regional sales personnel.

We have certain measures in our refined standardised distribution agreements to strengthen our control over our contractual distributors. For example, pursuant to the refined standardised distribution agreements, (i) contractual distributors are required to set their sales strategies in consultation with us; (ii) we are entitled to require contractual distributors to provide us with monthly sales and inventory data and other information including the names of customers and re-sell prices from time to time; and (iii) we also have the right to inspect and examine more closely the sale of OBM products by contractual distributors. We can unilaterally terminate such distribution agreements if our contractual distributors materially breach the terms of the distribution agreements.

Product returns

Save for defects in quality, we do not accept product returns from our contractual distributors. We are not responsible for any unsold stock held by our contractual distributors. For more details about product returns, please refer to the section headed “Business — Quality assurance — Product returns, consumer feedback and product recall” in this listing document.

Marketing and promotion

We have the right to require our contractual distributors to participate in our marketing and promotion campaigns under our refined standardised distribution agreements.

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(ii) Non-contractual distributors

Non-contractual distributors of our OBM products for a period are distributors which have not entered into distribution agreements with us and sales attributable to these distributors are conducted on a purchase order basis during that period. We manufacture our OBM products on a made to stock basis, that is, we manufacture before our OBM customers place orders with us. We sell our OBM products primarily through our distributors, and we only select persons which we believe have the channels to distribute our stock effectively as distributors. Unlike contractual distributors, non-contractual distributors are not contractually bound by our distribution agreements. Nonetheless, they are important for us in distributing and promoting our products and we have taken into account potential sales attributable to these distributors in our semi-annual and annual sales plans. The sales of each of our non-contractual distributors are of smaller size in general as compared to those of our contractual distributors, and they are more flexible in procurement and sales of our products, as these customers are not required to meet any sales targets and their sales performance is not being assessed by us periodically. As such, unlike our contractual distributors, they are not entitled to participate in our incentive scheme save for discounts which apply to all OBM customers during our promotion seasons. If a non-contractual distributor fails to perform as expected, we may terminate its non-contractual distributorship and look for more eligible distributors to ensure an effective distribution of our products.

We typically receive orders from our non-contractual distributors through orders placed from them to our sales personnel. We typically adopt our general credit policy to our non-contractual distributors which requires them to make payments before delivery of our products. For some non-contractual distributors with longer term of relationship with us and good payment history, our bills are sometimes settled on credit and the duration of the credit period is determined on a case-by-case basis. We are generally responsible for the costs of delivery of our products to non-contractual distributors' designated delivery locations.

Our non-contractual distributors are not allowed to return or exchange products except for defective products. We do not accept return of non-defective products.

The following table sets forth the number of our non-contractual distributors and the relevant movements during the Track Record Period:

	As at 31 December		
	2016	2017	2018
At the end of the previous year (Note 1)	663	681	688
Increase during the year (Note 2)	188	180	147
Decrease during the year (Note 3)	<u>(170)</u>	<u>(173)</u>	<u>(177)</u>
At the end of the year (Note 1)	<u>681</u>	<u>688</u>	<u>658</u>

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Notes:

1. The number of non-contractual distributors for a year refers to the number of distributors from which sales were generated for that year and without entering into a distribution agreement with us, and exclusive of the contractual distributors for the same year.
2. New non-contractual distributors for a year primarily refers to (i) non-contractual distributors from which sales were generated for that year but no sales were generated from the same distributors for the immediately preceding year; and (ii) certain contractual distributors for the immediately preceding year which did not renew their distribution agreements but from which sales were generated for that year. For more details of the conversion to non-contractual distributorship, please refer to note 3 to the above table which sets forth the number of contractual distributors and the relevant movements during the Track Record Period.
3. Mainly comprised non-contractual distributors which ceased to place purchase orders with us in a particular year or they entered into distribution agreements with us in a particular year and thus became our contractual distributors for that year. For more details of the conversion to contractual distributorship, please refer to note 2 to the above table which sets forth the number of contractual distributors and the relevant movements during the Track Record Period.

For the three years ended 31 December 2018, our sales to the non-contractual distributors were approximately HK\$95.0 million, HK\$91.3 million and HK\$85.7 million, accounted for 31.3%, 29.7% and 26.7 % of our revenue derived from the sale of our OBM products. The number of non-contractual distributors was relatively stable during the Track Record Period. Termination of non-contractual distributorship was mainly due to our effort to eliminate our distributors which failed to distribute our products effectively as expected although they are not contractually bound by our distribution agreements.

Management of non-contractual distributors

We do not enter into distribution agreements with our non-contractual distributors as (i) sales attributable to a non-contractual distributor are generally less than sales attributable to a contractual distributor even though the aggregate sales attributable to non-contractual distributors are significant; and (ii) these distributors may not wish to commit to the sales targets stipulated by our distribution agreements. Although we do not enter into any agreements with our non-contractual distributors, our sales personnel monitor the performance of these distributors through site visits to keep track on the status of their business licences, the sales of our products and our distributors' feedback on the quality of our products and our pricing policy. Under our internal policy, if we find any non-contractual distributor not following our policies, in particular, the jurisdictional selling restrictions imposed on them, we may consider terminating the non-contractual distributorship. Our sales to non-contractual distributors during the Track Record Period were in general fully paid before delivery. Accordingly, we do not have significant credit risk in dealing with our non-contractual distributors whilst ensuring a genuine market demand of our products.

We do not accept return of goods from our non-contractual distributors other than for quality reasons. During the Track Record Period, there were no material sales returns from our non-contractual distributors.

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Sub-distributors and retailers

We do not have contractual relationships with the sub-distributors or retailers that transact with our contractual and non-contractual distributors.

We rely on our contractual distributors to procure that their sub-distributors uphold the terms contained in our distribution agreements, including our pricing policy, restriction against unfair competition practice and the anti-dumping provision. Our contractual distributors are responsible for the selection and appointment of sub-distributors and we are entitled to access the information of their sub-distributors including their names, size, track record and whether the sub-distributors are engaged in the sale of competing products under our refined standardised distribution agreements.

Our regional sales teams from time to time conduct on-site inspections or make inquiries of our contractual and non-contractual distributors and points of sale, communicating with them and collecting feedback and information from them to help them understand the sales and distribution of our OBM products.

As mentioned in the section headed “Business — Our Customers — Our OBM customers - Relationship with our distributors” in this listing document, we often issue our invoices to our sub-distributors directly, and thus we know the identities of many of our sub-distributors. We believe that this helps us trace the movement of our products and attain control over our distributorship network.

Independence of distributors

To the best knowledge of our Directors, during the Track Record Period, there were (i) a number of distributors (the “**Ex-employee Distributors**”) whose shareholders, legal representatives or key personnel are or are related to our ex-employees; and (ii) a number of our employees who were identified to have served as shareholders, legal representatives or key personnel of our distributors (the “**Employee Distributors**”) at the same time.

For the three years ended 31 December 2018, total revenue derived from the Ex-employee Distributors was approximately HK\$16.6 million, HK\$16.2 million and HK\$16.5 million, representing approximately 3.2%, 3.1% and 2.7% of our total revenue, respectively.

For the three years ended 31 December 2018, total revenue derived from the Employee Distributors was approximately HK\$1.2 million, HK\$2.2 million and HK\$3.6 million, representing approximately 0.2%, 0.4% and 0.6% of our total revenue, respectively.

Our Directors confirm that (i) our sales to the Ex-employee Distributors and the Employee Distributors were conducted on an arm’s length basis and on normal commercial terms which were fair and reasonable; and (ii) our Group has ceased to supply our products to the Employee Distributors.

According to our staff handbook, employees are not allowed to engage in any business collaboration with our Group either in his/her personal capacity or through entities controlled by him/her. Our Directors also confirmed that we have not implemented any policy to encourage our employees to serve as distributors during their employment with our Group. In view of the above

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finding, our Group has adopted a set of measures recommended by the internal control consultant to continuously improve our Group's corporate governance in such connection in the future. For details, please refer to the section headed "Business — Internal control and risk management — Operational risks — Independence of our distributors" in this listing document. While we have not terminated any employment relationship with the Employee Distributors, given that we have ceased to supply our products to them, and have implemented the enhanced internal control measures, our Directors are of the view that we are capable of ensuring the independence of our distributors.

To the best knowledge of our Directors, save as disclosed above, none of our Directors or their respective close associates or any of our Shareholders holding more than 5% of the issued share capital of our Company had any interest in any of our distributors during the Track Record Period.

Measures to avoid cannibalisation

To minimise the risk of cannibalisation, we take the following measures: (i) in accordance with the terms of our distribution agreements, each distributor is assigned a designated area in which they are permitted to sell our OBM products; (ii) when selecting our distributors, we take into consideration their respective distribution channels in order to avoid potential competition among the distributors within a region; (iii) whilst sub-distribution is permissible, we have the right under our standardised distribution agreements to limit the number of sub-distributors that a distributor can appoint; (iv) we have the right to set the recommended retail prices; (v) our designated regional sales teams conduct on-site inspections and communications with our distributors and points of sale within their respective regions from time to time; (vi) where there is any material breach of our distribution agreement, we are entitled to unilaterally terminate the distribution agreement; and (vii) for our non-contractual distributors, we are entitled to unilaterally terminate the sales relationship if we find any of them not following our policies.

We believe that these measures, together with our "no return or exchange unless defective" policies for our distributors and the general requirement for distributors to pay us on a payment before delivery basis, helps our sales reflect genuine market demand of our products and avoid the risk of inventory accumulation by our distributors. During the Track Record Period, we were not aware of any material accumulation of our products by our distributors.

(2) Online retailers

We have an online retail store "保賜利旗艦店" at Tmall and an online retail store "保賜利京東自營旗艦店" at JD.com. The prices of our OBM products sold at these two stores are determined with reference to our internal indicative price ranges. Revenue attributable to our online stores only contributed approximately 0.3% of our total revenue for each of the two years ended 31 December 2017 and approximately 1.5% of our total revenue for the year ended 31 December 2018. As online and social media platforms continue to grow popular, we believe that further penetration into online platforms will allow us to increase our sales, enhance our brand recognition and achieve a broader consumer base.

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(3) *Our overseas OBM customers*

In 2013, we started to sell our OBM products under our BOTNY (保賜利) brand to overseas markets. For the three years ended 31 December 2018, overseas sales of our OBM products amounted to approximately HK\$6.1 million, HK\$8.6 million and HK\$8.3 million, representing approximately 1.2%, 1.7% and 1.4% of our total revenue, respectively. Our overseas OBM customers include customers (with reference to the locations of the registered offices of OBM customers) from India, the Philippines, Singapore, United Arab Emirates, Iraq, Pakistan, Lebanon, Yemen, Kuwait, Iran, Haiti, Canada, Chile, Russia, Australia, United Kingdom, Colombia, South Africa and Israel. The year-to-year increase in overseas sales of our OBM products was approximately 258.3% and 40.9% for the two years ended 31 December 2017, respectively. Overseas sales to our OBM products decreased by approximately 3.7% for the year ended 31 December 2018 as compared to 2017. Our OBM customers usually place their orders with our sales team through purchase orders.

(4) *Other OBM customers*

During the Track Record Period, we also sold a small amount of OBM products directly to a large number of customers. Our major direct sales customers include trading companies, wholesalers or retailers of automotive beauty and maintenance products, paint, chemicals and hardware and individuals which directly purchased our OBM products. For the three years ended 31 December 2018, revenue attributable to our direct sales customers was approximately 2.2%, 2.1% and 2.1% of our revenue, respectively. Sales attributable to each direct sales customer was relatively small generally.

We do not enter into any formal distribution agreements with our direct sales customers which place purchase orders with us from time to time. The unit prices of OBM products sold to both distributors and direct sales customers in the PRC are based on our price list and are therefore predetermined. Our direct sales customers are not entitled to participate in our incentive scheme save for discounts which apply to all our OBM customers during our promotion seasons.

Our CMS customers

Our major CMS customers include (i) overseas brand owners or their outsourcing agent companies; (ii) export and trading companies, which export our CMS products to overseas countries; and (iii) PRC brand owners or their outsourcing agent companies. We have established approximately 3 to 10 years of business relationship with our top five customers during the Track Record Period which were all CMS customers. During the Track Record Period, a majority of our CMS products were ultimately distributed overseas. For the three years ended 31 December 2018, based on the locations of the registered offices of our customers, sales derived from Japan accounted for approximately 20.2%, 15.1% and 12.6%, and sales derived from the America accounted for approximately 0.7%, 1.0% and 9.5%, of our revenue, respectively. For details, please refer to the section headed “Business — Sales and distribution — Geographical coverage” in this listing document.

We do not enter into any long term agreement with our CMS customers which place purchase orders or enter into short-term sales contracts with us on from time to time. We usually request full payment by way of telegraphic transfer or letter of credit within a certain period of time after the issue of the bill of lading. The duration of the credit period is determined on the case-by-case basis taking

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into account the creditworthiness and payment record of our customers. During the Track Record Period, the credit period generally ranged up to 120 days. In some cases, we may request a deposit up to 50% of the total contract sum before delivery of our products or allow our bills to be settled on monthly basis.

Our top five customers

For the three years ended 31 December 2018, our sales to our top five customers amounted to approximately HK\$106.8 million, HK\$83.1 million and HK\$129.0 million, representing approximately 20.4%, 16.0% and 21.2% of our total revenue, respectively.

The table below set forth our top five customers during the Track Record Period:

For the year ended 31 December 2016

Rank	Name of customer	Type of customers (CMS/OBM)	Location of registered office	Principal business activities carried on by the customer	Type of main products sold	Approximate years of business relationship	Revenue recognised (HK\$'000)	Percentage of total revenue
1	Customer D <i>(Note 1)</i>	CMS	U.S.	Principally engaged in wholesale packaging of products	Personal care products which mainly include air-fresheners	5	26,214	5.0%
2	Customer A	CMS	Japan	Principally engaged in manufacturing of aerosols and specialty lubricants for automobile, food machinery, and medical equipment	Automotive beauty and maintenance products which mainly include brake and parts cleaner and lubricants	10	22,942	4.4%
3	Customer F	CMS	Japan	Principally engaged in import and online sale of maintenance, repair and operations (MRO) products in Japan and internationally	Automotive beauty and maintenance products which mainly include brake cleaner, parts cleaner and de-rust lubricating spray	3	21,678	4.1%
4	Customer C <i>(Note 2)</i>	CMS	Japan	Principally engaged in manufacturing, import, and sales of various paints and painting supplies, and household supplies in Japan	Automotive beauty and maintenance products which mainly include acrylic spray paint and de-rust spray	9	20,358	3.9%
5	Customer B <i>(Note 3)</i>	CMS	Japan	Principally engaged in wholesale, commission-based agent (excluding auction), import, export, and other related supporting business of chemical products, daily chemical products, cosmetics, glass products, plastic products, base metal products and paper products	Automotive beauty and maintenance products which mainly include brake cleaner and waterproof spray	8	15,584	3.0%
Total:							106,776	20.4%

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Notes:

1. It represented sales to European Asia Industrial, being indent sales to Customer D.
2. Our sales to Customer C included (i) our direct sales to Customer C of approximately HK\$1.5 million; and (ii) our sales to an export and trading company which in turn assisted us in exporting our CMS products to Customer C, in the amount of approximately HK\$18.8 million.
3. Our sales to Customer B included (i) our sales to Customer B of approximately HK\$15.6 million; and (ii) our sales to a PRC entity of approximately HK\$32,000 which, to the best knowledge of our Director, such entity is a related company of Customer B.

For the year ended 31 December 2017

Rank	Name of customer	Type of customers (CMS/OBM)	Location of registered office	Principal business activities carried on by the customer	Type of main products sold	Approximate years of business relationship	Revenue recognised (HK\$'000)	Percentage of total revenue
1	Customer D <i>(Note 1)</i>	CMS	U.S.	Principally engaged in wholesale packaging of products	Personal care products which mainly include air-fresheners	5	20,837	4.0%
2	Customer C <i>(Note 2)</i>	CMS	Japan	Principally engaged in manufacturing, import, and sales of various paints and painting supplies, and household supplies in Japan	Automotive beauty and maintenance products which mainly include acrylic spray paint and de-rust spray	9	19,403	3.7%
3	Customer A	CMS	Japan	Principally engaged in manufacturing of aerosols and specialty lubricants for automobile, food machinery, and medical equipment	Automotive beauty and maintenance products which mainly include brake and parts cleaner and lubricants	10	14,556	2.8%
4	Customer G	CMS	PRC	Principally engaged in sale of personal care products	Personal care products which mainly include hair spray	4	14,435	2.8%
5	Customer B	CMS	Japan	Principally engaged in wholesale, commission-based agent (excluding auction), import, export, and other related supporting business of chemical products, daily chemical products, cosmetics, glass products, plastic products, base metal products and paper products	Automotive beauty and maintenance products which mainly include brake cleaner and waterproof spray	8	13,860	2.7%
Total:							<u>83,091</u>	<u>16.0%</u>

Notes:

1. It represented sales to European Asia Industrial, being indent sales to Customer D.
2. Our sales to Customer C represented our sales to an export and trading company which in turn assisted us in exporting our CMS products to Customer C.

BUSINESS

For the year ended 31 December 2018

Rank	Name of customer	Type of customers (CMS/OBM)	Location of registered office	Principal business activities carried on by the customer	Type of main products sold	Approximate years of business relationship	Revenue recognised (HK\$'000)	Percentage of total revenue
1	Customer D (Note 1)	CMS	U.S.	Principally engaged in wholesale packaging of products	Personal care products which mainly include air-fresheners	5	59,213	9.7%
2	Customer C (Note 2)	CMS	Japan	Principally engaged in manufacturing, import, and sales of various paints and painting supplies, and household supplies in Japan	Automotive beauty and maintenance products which mainly include acrylic spray paint and de-rust spray	9	22,948	3.8%
3	Customer G	CMS	PRC	Principally engaged in sale of personal care products	Personal care products which mainly include hair spray	4	18,035	3.0%
4	Customer A	CMS	Japan	Principally engaged in manufacturing of aerosols and specialty lubricants for automobile, food machinery, and medical equipment	Automotive beauty and maintenance products which mainly include brake and parts cleaner and lubricants	10	14,711	2.4%
5	Customer E	CMS	Japan	Principally engaged in manufacturing and sale of various car-care products, machines and equipment maintenance chemicals	Automotive beauty and maintenance products which mainly include brake cleaner and wheel cleaner	7	14,110	2.3%
Total:							<u>129,017</u>	<u>21.2%</u>

Notes:

- Our sales to Customer D included (i) our direct sales to Customer D of approximately HK\$54.1 million; and (ii) sales to European Asia Industrial of approximately HK\$5.1 million which represented indent sales to Customer D.
- Our sales to Customer C included (i) our direct sales to Customer C of approximately HK\$0.3 million; and (ii) our sales to an export and trading company which in turn assisted us in exporting our CMS products to Customer C, in the amount of approximately HK\$22.6 million.

Our Directors confirm that, one of our top five customers located in the United States (i.e. Customer D), which primarily purchased our personal care products during the Track Record Period, did not place any sales order with us during the period from January 2019 to March 2019 (the “**Order Suspension**”). Our secured orders received from the U.S. Customer, which were or are expected to be recognised as revenue, after March 2019 and up to the Latest Practicable Date amounted to approximately HK\$1.0 million, of which approximately HK\$0.4 million had been recognised as revenue as at the Latest Practicable Date. For the three years ended 31 December 2018, our revenue generated from the U.S. Customer amounted to approximately HK\$26.2 million, HK\$20.8 million and HK\$59.2 million, accounting for approximately 5.0%, 4.0% and 9.7% of our total revenue, respectively. As at the Latest Practicable Date, it was still uncertain whether the U.S. Customer would continue to place orders with us, and the parties intended to negotiate this further in due course.

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In order to mitigate our risks which may arise from the Order Suspension or any future order suspension, we strive to grow our CMS sales, in particular our sales of personal care products, in other regions through securing new orders from our existing customers or developing new customers. For the three years ended 31 December 2018, revenue generated from our overall CMS business (excluding revenue generated from Customer D) amounted to approximately HK\$197.0 million, HK\$190.1 million and HK\$230.7 million, respectively, representing a CAGR of approximately 8.2% over the period. In particular, during the same periods, our sales of personal care products (excluding revenue generated from Customer D) amounted to approximately HK\$18.3 million, HK\$38.5 million and HK\$66.7 million, respectively, representing a CAGR of approximately 90.0% over the period. We will continue to develop our new CMS customers primarily through trade fairs and exhibitions. Our Directors therefore consider that any shortfall in our revenue arising from the Order Suspension or any future order suspension would be offset by the growth in our CMS business, in particular our sales of personal care products. Since 1 January 2019 and up to the Latest Practicable Date, our secured orders received from our CMS customers, which were or are expected to be recognised as revenue, amounted to approximately HK\$118.5 million.

Independence of our top five customers

For the three years ended 31 December 2018, we sold our CMS products to European Asia Industrial, a company wholly-owned by Mr. Lin, in the amounts of approximately HK\$26.2 million, HK\$20.8 million and HK\$5.1 million, respectively. European Asia Industrial, in turn sold the products to one of our top five customers (i.e. Customer D) located in the United States which has approximately 5 years of relationship with us. Such arrangement effectively represented indent sales to Customer D for the purpose of facilitating the receipt of payments from Customer D as it is more convenient to settle, use and invest funds denominated in USD in Hong Kong. For more details about this arrangement, please refer to the section headed “Business — Legal compliance — Transfer pricing” in this listing document. Our Group has ceased to sell CMS products to European Asia Industrial. Sales of CMS products to European Asia Industrial are not expected after Listing.

Our Directors confirmed that save as disclosed above, all of our top five customers during the Track Record Period are Independent Third Parties, and none of our Directors, their respective close associates or any Shareholders who, to the best knowledge and information of our Directors, owned more than 5% of the issued share capital of our Company, had any interest in any of our top five customers during the Track Record Period.

MARKET COMPETITION

According to the CIC Report, the manufacturing of aerosol products used in the automotive beauty and maintenance market is relatively concentrated, with the leading five companies accounting for approximately 35.7% of the total market in terms of sales revenue in 2018. Notwithstanding, a high degree of product homogeneity has exacerbated the market competition in terms of price competition.

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According to the CIC Report, potential new entrants face several market barriers for entering into the PRC automotive beauty and maintenance aerosol product manufacturing market, namely:

1. licences for manufacturing of aerosol products;
2. large initial capital investment;
3. established cooperation with raw material providers and distributors; and
4. management of manpower and associated costs.

Our Directors believe that given our strengths as stated in the section headed “Business — Competitive strengths” in this listing document, we are able to maintain our position notwithstanding the increasingly fierce competition we face in the PRC automotive beauty and maintenance market.

AWARDS

We have been honoured with awards from various associations and governmental authorities. The table below sets out our major awards during the Track Record Period and up to the Latest Practicable Date:

Year of Grant	Awards	Awarding Body
2019	Brilliant Enterprise Outstanding Contributions Award* (光彩事業突出貢獻獎) (granted to Guangzhou Euro Asia)	Federation of Industrial and Commercial Enterprises (Guangzhou Conghua branch)* (廣州市從化區工商業聯合會(總商會))
2019	40th Anniversary of Reform and Opening-up — Model Enterprise* (改革開放四十週年示範企業) (granted to Guangzhou Euro Asia)	Federation of Industrial and Commercial Enterprises (Guangzhou Conghua branch)* (廣州市從化區工商業聯合會(總商會))
2018	Top 10 China Automotive Industry - Automotive Beauty and Maintenance Companies* (2018中國汽車後服務行業汽車美容護理類 Top 10)	China Auto Dealers Chamber of Commerce* (中華全國工商業聯合會汽車經銷商商會)

BUSINESS

Year of Grant	Awards	Awarding Body
2018	Top 100 Automotive Post-market Brands (2018中國汽車後市場百強品牌) (for our BOTNY (保賜利) brand)	Global Automotive Media Recommendation Center* (全球汽車媒體聯薦中心) and the CIAACE Committee* (CIAACE中國汽車用品暨改裝汽車展覽會組委員會)
2017	High-tech enterprise (高新技術企業)	Guangdong Science and Technology Department* (廣東省科學技術廳), Department of Finance of Guangdong Province* (廣東省財政廳), Guangdong Provincial Office, SA7* (廣東省國家稅務局) and Guangdong Local Taxation Bureau* (廣東省地方稅務局) (Note)
2017	Wealth Pyramid Award - Top 10 Car Beautification Brands for the Year (財富金字塔獎年度汽車美容十大品牌)	China Automobile Aftermarket Association* (中國汽車後市場總會)
2017	Wealth Pyramid Award - Top 10 Automotive Beauty and Maintenance Brands for the Year (財富金字塔獎年度汽車保養十大品牌)	China Automobile Aftermarket Association* (中國汽車後市場總會)
2017	Guangdong Brand Product (廣東省名牌產品)	Guangdong Brand Product Promotion Commission* (廣東省名牌產品推進委員會)
2016	2016 Recommended Product (2016年度推薦大獎) (for launching the ternary catalytic restoration agent (三元催化修復劑) under the BOTNY (保賜利) brand)	Auto Magazine* (汽車雜誌)

Note: Guangdong Provincial Office, SAT (廣東省國家稅務局) and Guangdong Local Taxation Bureau (廣東省地方稅務局) were subsequently unified as Guangdong Provincial Tax Service, State Administration of Taxation (國家稅務總局廣東省稅務局).

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MARKETING AND PROMOTION

Our sales and marketing department is responsible for market research, exploring new business opportunities and managing existing customer relationships. It has two subdivisions which are dedicated to serving our overseas customers and PRC customers, respectively.

Our marketing personnel obtains customers' feedback on our products and collects market intelligence such as information about competing products from time to time. To enhance the recognition and image of our own brands, our marketing personnel also undertakes media advertising and promotional campaigns, which includes the following:

1. Media advertising

During the Track Record Period, we have promoted our OBM products through advertisements on radio, television networks and magazines.

2. Sponsorships

We sponsor music concerts from time to time such as the sponsorship to the Music Pioneer Awards ceremony founded by Radio Guangdong, the around-the-world concerts of a well-known Taiwanese singer, Mr. Show Lo (羅志祥) and a well-known Hong Kong female singing group, TWINS in 2017, the music concert of an international acclaimed pianist, Mr. Li Yundi in 2017, the PRC concerts of a well-known Hong Kong singer, Mr. Alan Tam (譚詠麟) in 2017 and 2018, the South China Annual Car Ceremony co-organised by the South China Media Group, the Car Enthusiasts' Corps* (愛車兵團), Radio Guangdong and Car Specialists New Media* (只懂車新媒體) in 2018, a well-known Hong Kong band, Supper Moment in 2018 and a well-known Hong Kong singer, Mr. Eason Chan (陳奕迅) in 2016.

3. Exhibitions and trade fairs

Taking part in automobile and automobile parts industry exhibitions and trade fairs is one of our major marketing activities. We participated in trade fairs and exhibitions such as The Automotive Aftermarket Industry and Tuning Trade Fair (AAITF) in 2017, the China National Hardware Fair in 2017, China International Auto Aftermarket Fair (CIAAF), Zhengzhou in 2018, the auto accessories trade fairs hosted by YASN and Automechanika Shanghai (AMS). We consider that these exhibitions and trade fairs can increase the public awareness of our products in the PRC automotive beauty and maintenance industry. At the same time, they help us understand the latest market trends which are useful references for setting our sales and marketing strategies.

4. Shopping sales and promotion

We organise sales at supermarkets and promotional activities (such as lucky draws) at shopping centres from time to time.

5. Official website

We maintain a website at <http://www.botny.com/> for the promotion of our products and services.

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6. Social media

We advertise through social media such as WeChat.

7. Site visits and other social activities

We visit our customers and organise social activities (such as dinners and trips) to maintain and foster our business relationships from time to time.

RESEARCH AND DEVELOPMENT

Our Directors believe that our research and development provides us with a competitive edge over our competitors in the PRC and is a crucial factor for our success. Our quality and technical supervision department is responsible for, among other things, researching and developing new formulations for chemical contents to enhance the product variety, such as the production of the environmentally friendly products, to refine our existing products or to improve cost efficiency through technological upgrade. As at the Latest Practicable Date, our quality control and technical supervision department had 68 employees. It is divided into the following teams: (i) quality assurance; and (ii) technical supervision (including product engineering). As at the Latest Practicable Date, our executive Director and the head of our safety department and quality control and technical supervision department, Mr. Yang, had over 18 years of experience in quality management and technical supervision in aerosol manufacturing and filling. He joined Guangzhou Botny in September 2000. As at the Latest Practicable Date, other key personnel of the quality control and technical supervision department had approximately five to 15 years of experience in the research and development and/or quality control of car care products, personal care products or household products.

Our quality and technical supervision department strives to launch new products or upgrade our existing products to be in line with perceived market trends. Please refer to the section headed “Business — Our products — New products launched in 2018” in this listing document for more details on our new products. We also have the capability to design our CMS products we manufacture on an ODM basis.

As at the Latest Practicable Date, we had registered in the PRC six invention patents (including a type of titanium dioxide film and preparation method thereof* (一種二氧化鈦薄膜及其製備方法), a type of raw material formula of automobile glass surface protective film and preparation method thereof* (一種汽車玻璃表面保護膜的原料配方及其製備方法), a type of tale wax* (一種表板蠟), a type of carburetor cleaning agent and preparation method thereof*(一種化油器清洗劑及其製備方法) and a type of non-cleaning hand washing liquid and preparation method thereof* (一種免洗洗手液及其製備方法)) and 12 utility model patents (which protect, among other things, our designs of aerosol nozzle and a container for liquid coating). Please refer to the section headed “Appendix V — Statutory and general information — C. Intellectual property rights of our Group” in this listing document for more details.

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In recognition of our strong technology and production development capability, our key operating subsidiary, Guangzhou Botny, has been accredited as High-tech enterprise (高新技術企業) since 2008, which entitles us to a preferential tax rate of 15%, subject to the review and approval by the tax authorities every three years.

In order for us to be continued to be qualified as a High-tech enterprise and be entitled to the 15% preferential tax rate, our annual research and development expenditure must not be less than 3% of our total revenue in a year according to the relevant laws and regulations. For the three years ended 31 December 2018, our research and development expenses amounted to approximately HK\$18.9 million, HK\$18.8 million and HK\$22.2 million, representing approximately 3.6%, 3.6% and 3.6% of our total revenue, respectively.

For the three years ended 31 December 2018, we recognised various government grants of approximately HK\$3.8 million, HK\$1.8 million and HK\$2.8 million, respectively, which were provided by the local government authorities to us as an encouragement for our technological innovation and overseas sales. There are no unfulfilled conditions or contingencies relating to these grants.

We consider our research and development personnel to be our invaluable assets. To incentivise our product engineering personnel to develop more new products, we grant discretionary cash bonuses to our research and development personnel from time to time. For the three years ended 31 December 2018, the staff salary, welfare and bonuses of our research and development personnel amounted to approximately HK\$4.4 million, HK\$4.5 million and HK\$6.0 million, respectively.

In order to further strengthen our capability in research and development, we work in collaboration with the Chemical Engineering Faculty of the Guangzhou University (廣州大學精細化研究所) in research and development of environmental friendly products. According to the cooperation agreement, which has a term from April 2018 and up to December 2021, Guangzhou University would mainly be responsible for project research and development, while Guangzhou Botny would mainly be responsible for the application and product testing. Guangzhou Botny will have the ownership of the intellectual property rights for the research outcome and shall have priority as to the industrialization of such research outcome. As advised by our PRC Legal Advisers, the said cooperation agreement is legally binding.

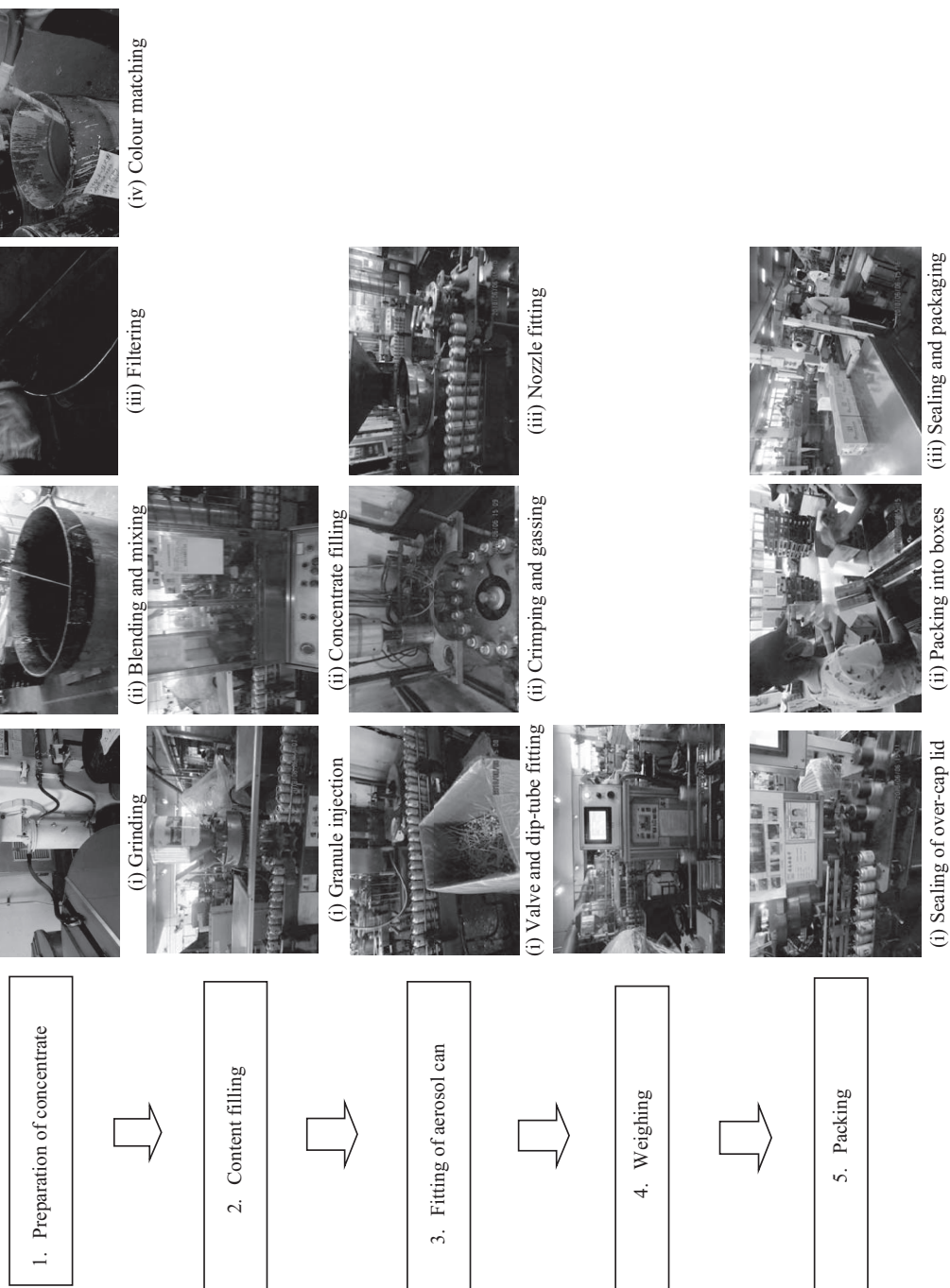
PRODUCTION

As at the Latest Practicable Date, our production department had 229 employees. Our production department consists of assembly staff at different workshops and a machinery maintenance team.

Production processes

Aerosol products

The production processes of our products vary for different kinds of products. The principal steps of manufacturing aerosol products are illustrated in the diagram below:



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During the Track Record Period, the production cycle of our major aerosol products (from concentrate preparation to final inspection of products before warehousing of products) could be finished within one day depending on the volume of individual purchase orders.

The initial phase of the production process is preparation of concentrate, where formulations, raw materials and other components are inspected (such as checking the fineness of colourants) before filling into the container. In some cases, our CMS customers provide raw materials including concentrates to us. Depending on the type of products, production of aerosol products typically involves the following key steps:

1. Preparation of concentrate

- (i) Grinding - Raw materials used in our production are selected and cleansed for each batch of product to be produced. They are then subject to grinding.
- (ii) Blending and mixing - Raw materials are then loaded to a premixing machine with resin and thinner, among other materials. After loading, the raw materials are premixed by high speed disperser which serves to break them down into finer parts for further processing. Colour paste is then added slowly and pre-mixed at low speed.
- (iii) Filtering - The mixture is filtered.
- (iv) Colour matching - The mixture together with solvent is added to a colour matching tank for reaching the required colour standard and viscosity of a particular batch of finished product.

2. Content filling

- (i) Granule injection - Granules are injected into the aerosol can.
- (ii) Concentrate filling - We check the weight of the concentrate to ensure it meets the weight requirement.

3. Fitting of aerosol can

- (i) Valve and dip-tube fitting - A valve and the dip-tube are fitted to the aerosol can which is then vacuumised.
- (ii) Crimping and gassing - After vacuumisation, the valve is crimped to the aerosol can, and propellant is injected into the aerosol can, which is then tested for leaks.
- (iii) Nozzle fitting - The nozzle is then fitted to the aerosol can. The functioning of the nozzle, valve and dip-tube is being tested.

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4. Weighing - The product is being weighed to ensure it is of the required weight.
5. Packing
 - (i) Sealing of over-cap lid - Each product is sealed with a tamper-proof lid and assigned with a product code.
 - (ii) Packing into boxes - After inspection of the product code of each finished product, the products are being packed into boxes.
 - (iii) Sealing and packaging of boxes - The boxes are sealed and packaged in accordance with packaging specifications. Each box has a certificate of approval.

Non-aerosol products

The principal steps of manufacturing non-aerosol products are as follows:

1. Preparation of concentrate - The concentrate is prepared by putting raw materials such as purified water and glycol into an emulsion tank, with temperature adjustments during the process.
2. Colour matching - The mixture together with solvent is added to a colour matching tank for reaching the required colour standard and viscosity of a particular batch of finished product.
3. Content filling - Granules followed by the concentrate are injected into a container and the semi-finished product is then weighed.
4. Solidification - In the case of wax products, underwent cooling-off and solidification of the content in a container.
5. Sealing and packaging - A product code is assigned to each product. Products which pass inspection are sealed and packed in accordance with packaging specifications.

During the Track Record Period, the production cycle of our major non-aerosol products (from concentrate preparation to final inspection of products before warehousing of products) could be finished within one to three days depending on the type of product and the volume of individual purchase orders.

Subcontracting arrangement

In 2018, we started to subcontract the production of certain refrigerant products under our BOTNY (保賜利) brand to an Independent Third Party (the “**Subcontractor**”), and to on-sell other refrigerant products supplied by a third party supplier. As we would like to reallocate our resources

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to produce more lucrative products, we decided to outsource the production of refrigerant products. Our Subcontractor has the technology to produce quality gas-tight refrigerant products and our supplier supplies refrigerant products which are manufactured by a manufacturer specialising in the production of refrigerant products.

We enter into a legally binding subcontracting agreement with the Subcontractor. The principal terms of the subcontracting agreement are similar and summarised as below:

1. Raw material procurement: We are generally responsible for procuring raw materials and bear the costs related thereto.
2. Pricing: Product prices are specified in the subcontracting agreements.
3. Payment terms: We settle our bills each month.
4. Specifications and quality requirements: Products manufactured by the Subcontractor shall be in strict compliance with our product specifications and standards.

Our subcontracting agreement does not have a fixed term.

We provided raw materials and packaging materials for content filling by the Subcontractor. The cost incurred under this arrangement amounting to approximately HK\$4.2 million for the year ended 31 December 2018 was inclusive of both subcontracting charges and the cost of raw materials. Both components were recorded as cost of sales for the same period.

For the three years ended 31 December 2018, sales of refrigerant products amounted to approximately HK\$8.9 million, HK\$5.7 million and HK\$6.8 million, respectively. Among the sales of refrigerant products of approximately HK\$6.8 million for the year ended 31 December 2018, approximately HK\$5.2 million was generated from sales of refrigerant products manufactured by our Subcontractor.

Production facilities

We have two production facilities in the Conghua District of the Guangdong Province, the PRC, that is, the North Jufeng Plant and the Tai Yuan Plant which have total gross floor area of approximately 26,816.95 sq.m. and approximately 13,653.33 sq.m, respectively. We substantially completed the relocation of our production lines from the Tai Yuan Plant to the North Jufeng Plant prior to the Track Record Period. During the Track Record Period, we manufactured our products primarily at the North Jufeng Plant, as the North Jufeng Plant is larger in scale and we would like to centralise our production in one plant for effective management. Our Group manufactured refrigerant products at the Tai Yuan Plant during the Track Record Period until the Tai Yuan Plant ceased production. We started to outsource the production of certain refrigerant products and purchase refrigerant products in the form of finished goods for resale in 2018. As advised by our PRC Legal Advisers and confirmed by our Directors, our operations at the Tai Yuan Plant were in compliance with all relevant PRC laws, rules and regulations in all material aspects during the Track Record Period and up to the Latest Practicable Date.

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As at the Latest Practicable Date, there were 26 production lines in operation, of which 22 production lines were fully automatic production lines.

As at 31 December 2016, 2017 and 2018, the net carrying amount of the North Jufeng Plant (comprising land and properties) was approximately HK\$122.0 million, HK\$123.6 million and HK\$108.0 million, and the net carrying amount of the Tai Yuan Plant (comprising land and properties) was approximately HK\$1.4 million, HK\$1.9 million and HK\$1.7 million, respectively.

Production technologies and equipment

In addition to our production lines, the principal production equipment and facilities that we own and use and their respective useful lives are set out below:

1. ex-equipments (防爆器材) for the prevention of fire outbreaks during production with a general useful life of around 5 years; and
2. an underground liquefied gas storage tank (埋地液化氣儲罐) for storing liquefied gas with a remaining useful life of around 7 years.

There is no fixed replacement cycle for our equipment and facilities. We may replace equipment and facilities which have become obsolete.

Production capacity and utilisation

We set out below the production capacity and utilisation rates of our production facilities during the Track Record Period:

	Aerosol Products			Non-aerosol Products		
	Designed capacity (units) (Note 1)	Actual production volume (units)	Utilisation rate (%) (Note 2)	Designed capacity (units) (Note 1)	Actual production volume (units)	Utilisation rate (%) (Note 2)
Year ended 31 December 2016	120,000,000	99,540,982	83%	6,300,000	3,570,723	57%
Year ended 31 December 2017	120,000,000	99,409,865	83%	6,300,000	3,342,950	53%
Year ended 31 December 2018	121,700,000	108,324,173	89%	6,300,000	3,743,279	59%

Actual production volume (units)

	For the years ended 31 December		
	2016	2017	2018
Aerosol products	99,540,982	99,409,865	108,324,173
Non-aerosol products	3,570,723	3,342,950	3,743,279
Total	103,111,705	102,752,815	112,067,452

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Notes:

1. Designed capacity is the sum of the designed capacity of each production line which was in operation during the relevant year/period. The designed capacity of a production line is primarily estimated with reference to the designed capacity as stated in its instruction manual, the number of working hours and the time it took for switching the configuration of a production line to cater for the specifications of different types of products which were produced on the same line. Where an instruction manual is unavailable, the designed capacity of a production line is estimated with reference to the daily target production volume we set for that production line. We assume that the number of working hours was 10 hours each day and it took 1 to 3 hours each day to switch the configuration of each production line. We also assume that the number of effective working days was 250 days in a year taking into account Sundays and the public holidays in the PRC.
2. Utilisation rate is calculated by dividing actual production volume with designed capacity.
3. We started to outsource the production of certain refrigerant products and purchase refrigerant products in the form of finished goods for resale in 2018.

For the three years ended 31 December 2018, we produced approximately 103.1 million units, 102.8 million units and 112.1 million units of products, respectively. In 2018, the increase in the utilisation rate for the production of aerosol products was mainly attributable to the increase in sales in general as compared to that in the previous year. The decrease in the utilisation rate for the production of non-aerosol products in 2017 was mainly attributable to the shift of our focus to the production of more lucrative products including personal care products which are aerosol products. Utilisation rate for the production of non-aerosol products then increased for the year ended 31 December 2018 primarily as a result of a general increase in the demand for wax and coating products which are mainly non-aerosol products. During the Track Record Period, we had not experienced any material disruption in our production.

Construction of a new plant

We plan to construct four industrial complex (including a few workshops and a solvents pump house) with total gross floor area of approximately 15,525.54 sq.m. on the Xihucun Land. A planning permit for the four industrial complex was granted to Guangzhou Euro Asia on 11 October 2016. As confirmed by our Directors, Guangzhou Euro Asia initially planned to use certain buildings for processing aerosol cans and solvents. However, this preliminary plan, which was contemplated prior to our acquisition of Guangzhou Euro Asia, is subject to change and we may instead use them as additional production facilities for our personal care products and automotive beauty and maintenance products, research and development and warehousing. To date, we still have not formulated any concrete business plan and will apply for a new planning permit once we have finalised our plan.

We are currently clearing the land and construction of the four industry complex has not yet commenced. As at 31 December 2018, the incurred cost relating to land formation and research amounted to approximately HK\$3.3 million. We expect construction of the four industry complex to take two years from the time we have confirmed to proceed with the construction plan and the estimated construction cost is approximately RMB45.0 million which is expected to be satisfied by our internal resources.

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The net carrying amount of the Xihucun Land was approximately HK\$8.6 million as at 31 December 2018 and the market value of the Xihucun Land was approximately RMB40.0 million as at 31 March 2019 as set out in Appendix III to this listing document. As the market value of the Xihucun Land is higher than its net carrying amount, our Directors consider that no impairment was required to be made during the Track Record Period.

QUALITY ASSURANCE

As at the Latest Practicable Date, our quality assurance team within our quality control and technical supervision department had 11 employees. They work together with our technical supervision team of the same department when implementing quality control procedures.

Guangzhou Botny is accredited with the following certifications from Zhongjian Certification Co., Ltd.* (中鑒認證有限責任公司): (i) GB/T19001-2016/ISO9001:2015 standard quality management system certification for our design, production and sale of aerosol products, cleaning agents, wax products and heat insulation coating products; and (ii) GB/T24001-2016/ISO14001:2015 environmental management system certification for our design, production and sale of aerosol products, cleaning agents, wax products and heat insulation coating products and the related management system. Both certificates were awarded on 26 July 2016 and will remain valid until 25 July 2019.

Guangzhou Euro Asia is accredited with the following certifications from Zhongjian Certification Co., Ltd.* (中鑒認證有限責任公司): (i) GB/T19001-2016/ISO9001:2015 standard quality management system certification for our design, production and sale of aerosol products, cleaning agents, wax products and skincare, haircare class cosmetics; and (ii) ISO9001:2015 quality management system certification for our design, production and sale of aerosol products, cleaning agents, wax products and skincare, haircare class cosmetics. Both certificates were awarded on 1 August 2017 and will remain valid until 31 July 2020.

We have implemented the following procedures to ensure the quality of our services:

1. Quality control on suppliers and raw materials

Raw materials are only sourced from suppliers approved by our procurement department. Please refer to the section headed “Business — Our suppliers” in this listing document for more details. Our quality and technical supervision personnel check the raw materials on a sampling basis at our laboratory upon receipt of raw materials. Also, as raw materials and packaging materials do not have a warranty period, our quality and technical supervision check the raw materials and packaging materials semi-annually and annually to identify obsolete and damaged stock.

2. Quality control during production

We carry out quality control on our semi-finished products at various stages along our production lines to ensure their quality complies with applicable industry standards and internal benchmarks.

BUSINESS

Among others, production of our products conforms to the following industry standards which were issued by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China* (中華人民共和國國家品質監督檢驗檢疫總局):

Product	PRC National Standard
Refrigerant	GB/T 18826 "1,1,1,2-tetrafluoroethane HFC-134a" for industrial use * (GB/T 18826工業用四氟乙烷 HFC-134a)
Anti-freeze agent	GB 29743 "Motor Vehicle Engine Coolant" * (GB 29743機動車發動機冷卻液)
Air-freshener	QB 2548 "Air-freshener" * (QB 2548空氣清新氣霧劑)
Insect-stain remover (for glass)	GB/T 23436 "Car window detergents" * (GB/T 23436汽車風窗玻璃清洗液)
Automobile spray paint	BB/T 0047 "Aerosol paint" * (BB/T 0047氣霧漆)
Refrigeration lubricant	NB/SH/T 0849 "Compound refrigeration lubricants for air-conditioners in vehicles" * (NB/SH/T 0849汽車空調合成冷凍機油)
Motor vehicle brake oil	GB 12981 "Motor vehicle brake oil" * (GB 12981機動車輛制動液)

3. Inspection before storage

It is our policy to inspect the products to ensure they conform to product specifications prior to storage.

4. Testing before delivery

We carry out quality control on our finished products by random and sample testing, and our quality and technical supervision personnel check our products on a sampling basis at our laboratory.

In addition, we submit samples to the Guangzhou Conghua Bureau of Quality Supervision* (廣州市從化區質量技術監督局) (the "**Quality Supervision Bureau**"). As stated in the confirmations issued by the Quality Supervision Bureau on 8 March 2018, 6 July 2018 and 31 January 2019, the Quality Supervision Bureau had not penalised Guangzhou Botny or Guangzhou Euro Asia for infringement of any quality assurance laws and regulations during the Track Record Period. As advised by our PRC Legal Advisers, the Quality Supervision Bureau is a competent authority for issuing the confirmations.

BUSINESS

Product returns, consumer feedback and product recall

We have an established policy for handling product complaints. We have a dedicated team of customer service personnel under our sales and marketing department which handle customer complaints. Our customer service personnel together with our quality assurance team under our quality and technical supervision department seek to identify any quality related issues. We may refund or replace the defective products at our own costs, as the case may be. Any refund is offset against the accounts receivable of the relevant customer as recognised in our accounts. Product recall and replacement is subject to the prior approval of our responsible regional sales team. The product warranty period is usually three years. We have not made any provision for product returns, as our Directors consider the historical amounts of product returns to be insignificant.

Our product returns amounted to approximately HK\$0.6 million, HK\$1.1 million and HK\$1.1 million, accounting for approximately 0.1%, 0.2% and 0.2% of our total revenue, respectively, for the three years ended 31 December 2018. The product returns were mainly from our OBM customers which are automotive beauty and maintenance service providers, automotive beauty and maintenance product wholesalers or retailers and export and trading companies due to defective products.

We face an inherent risk of exposure to product liability claims in the event that the use of our products results in health or safety issues or damages. The end-consumers of our products may have the right to bring an action under tort and we may also be subject to tortious liabilities for any damages caused by defects of our products. According to the Tort Law of the PRC* (中華人民共和國侵權責任法) which was promulgated by the Standing Committee of the NPC on 26 December 2009 and became effective since 1 July 2010, if damage or physical injury is incurred due to product defect, the manufacturer of the product and the seller shall assume civil liability in accordance with the above-mentioned law and other related laws and regulations. In addition, we export certain amount of our products from the PRC to our overseas customers and we rely on other entities such as our agents and our foreign customers to comply with the relevant procedures and regulations. For further details, please refer to the section headed “Risk factors — We may fail to maintain an effective quality control system and may be subject to claims by our customers and consumers of our products in respect of product quality and compliance with relevant health and safety standards, and our insurance coverage might not be sufficient to cover our potential losses in product liability claims” in this listing document.

During the Track Record Period, we faced two defective products claims from two of our CMS customers, which we had eventually paid approximately RMB206,000 and RMB150,000 to the respective CMS customers as settlement. During the Track Record Period and up to the Latest Practicable Date, (i) we were not subject to material product complaints, or regulatory fines and penalties in the PRC regarding product quality or safety; (ii) we did not experience any cancellation of customer orders; and (iii) we did not have material sales return or product recall.

BUSINESS

INVENTORY CONTROL

Our inventory mainly comprises raw materials, work-in-progress and finished products. We have inventory management procedures that monitor the planning and allocation of warehouse space and stock of raw materials, work-in-progress and finished products to coordinate with the delivery arrangements and schedules.

We adopt different production planning and inventory management strategies for our CMS products and OBM products.

We manufacture our CMS products on a made-to-order basis. From time to time, our customers may supply us with raw materials. We may also source raw materials directly from our suppliers.

On the other hand, we manufacture our OBM products on a made-to-stock basis, that is, we manufacture before our OBM customers place orders with us. Our sales and marketing department, based on their understanding of historical sales and perceived market trends, formulates annual sales targets at our Group's level and at the regional level. It is also on this basis that we determine sales targets for each contractual distributor as set out in their respective distribution agreements. Our regional sales teams then prepare their respective quarterly and monthly sales targets. Monthly production plans are prepared with reference to the monthly sales forecasts and our inventory level, among other things. We do not usually adjust the monthly sales targets unless there are material adverse changes to the economy or the operating environment. Our sales and marketing department reviews every month and every quarter whether our regional sales teams are able to meet their monthly and quarterly sales targets. At the end of each year, our sales and marketing department reviews annual sales by region, product and brand, customer turnover rate, the level of returned goods and the number of customer complaints. It is our policy to maintain an inventory level sufficient for at least 15 to 50 days' supply of finished products. This is determined with reference to the historical daily sales of each type of products.

Our warehousing department and our production department carry out physical stock counts from time to time to monitor our inventory level and to identify obsolete or damaged stock. Our designated stocktake team together with our finance department and our production department also carries out semi-annual and annual overall stock counts. We recorded an insignificant amount of impairment of inventory due to damaged and obsolete stock during the Track Record Period.

RAW MATERIALS AND PROCUREMENT

As at the Latest Practicable Date, our procurement department consisted of 8 employees.

Our cost of sales consists of raw material costs, direct labour cost and manufacturing overhead costs. Our major raw materials include solvents, aerosol cans (including tinsplate and aluminum cans) and packaging materials (such as dip-tubes, valves and paper-boxes) which are predominantly sourced from our PRC suppliers. For the three years ended 31 December 2018, our costs for raw materials were approximately HK\$304.5 million, HK\$324.9 million and HK\$395.5 million, representing approximately 87.7%, 87.6% and 87.3% of our total costs of sales, respectively.

BUSINESS

Our procurement department procures raw materials with reference to our monthly production plans, production orders on hand and inventory level. We may purchase raw materials by placing purchase orders and/or enter into one-year procurement agreements with our suppliers from time to time.

It is our policy to obtain price quotations from two to three qualified suppliers of comparable major raw materials before placing an order.

We settle our bills issued by our suppliers through cash settlement, bank transfer or different credit arrangements including by way of bank acceptance bill. During the Track Record Period, trade payables were normally settled on terms of 30 to 90 days.

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we did not experience any shortage or material delay in the supply of raw materials. Our Directors do not anticipate any material difficulties in the procurement of the raw materials in the foreseeable future.

OUR SUPPLIERS

We have approximately five to eleven years of cooperation with our top five suppliers during the Track Record Period and have established stable business relationship with them.

The selection of our suppliers is based on the following criteria:

1. a supplier has obtained all requisite production licences;
2. a supplier's ability to supply a stable source of quality raw materials that meet our stringent standards, its quality management system and whether such system is appropriately accredited; and
3. a supplier's ability to supply raw materials at competitive prices.

We shortlist and handpick suppliers through the following screening and evaluation process:

1. our initial assessment based upon basic information of the suppliers;
2. test of the suppliers' sample products by our technical staff;
3. our implementation of a product trial period; and
4. our site-visit to the suppliers' factories or production plants with a view to ensuring that our suppliers have supply capability.

Further, we conduct annual review and random review of our list of approved suppliers, and these suppliers who cannot satisfy our quality or other requirements will be removed from the list.

BUSINESS

Our top five suppliers

The table below set forth the top five suppliers of our Group during the Track Record Period:

For the year ended 31 December 2016

Rank	Name of suppliers	Principal business activities carried on by supplier	Type of main products provided	Approximate years of business relationship	Purchase amount (HK\$'000)	Percentage of total cost of sales
1	Supplier A	Processing, production and operating of all kinds of tinplate packaging container, printed tinplate, tinplate and different kinds of packaging material products	Aerosol cans	11	32,926	9.5%
2	Supplier F	Manufacturing and processing of metal materials, wholesale of the gasoline, diesel and kerosene used for shipping industry system	Solvents	5	19,206	5.5%
3	Supplier B	Wholesale of chemical products, wholesale and retail of auto parts, manufacturing of metal packaging container and auto parts and accessories	Aerosol cans	11	16,611	4.8%
4	Supplier C	Production and operation of aerosol valves, nonmetallic product molds, plastic liquid pumps, plastic bottles, household liquid spray diffusers and accessories, plastic caps, metal bottles, as well as metal packaging products used to contain kinds of oil, foodstuffs, fruit, vegetable, beverage and daily chemical product	Nozzles, dip-tubes and over-caps of aerosol cans	11	16,362	4.7%
5	Supplier D	Domestic wholesale of fuel oil, paraffin oil and lubricant, methanol, gas condensate, solvent oil, naphtha, pitch and aromatic	Liquefied petroleum gas	8	15,711	4.5%
Total:					<u>100,826</u>	<u>29.0%</u>

BUSINESS

For the year ended 31 December 2017

Rank	Name of suppliers	Principal business activities carried on by supplier	Type of main products provided	Approximate years of business relationship	Purchase amount (HK\$'000)	Percentage of total cost of sales
1	Supplier A	Processing, production and operating of all kinds of tinplate packaging container, printed tinplate, tinplate and different kinds of packaging material products	Aerosol cans	11	23,913	6.5%
2	Supplier D	Domestic wholesale of fuel oil, paraffin oil and lubricant, methanol, gas condensate, solvent oil, naphtha, pitch and aromatic	Liquefied petroleum gas	8	19,639	5.3%
3.	Euro Asia Packaging <i>(Note 1)</i>	Manufacturing and sale of packaging materials	Aluminum cans	11	19,391	5.2%
4	Supplier G	Wholesale of dangerous chemicals, and sale of steam, condensate water and hot water	Solvents	6	17,509	4.7%
5	Supplier F	Manufacturing and processing of metal materials, wholesale of the gasoline, diesel and kerosene used for shipping industry system	Solvents	5	16,844	4.5%
Total:					<u>97,296</u>	<u>26.2%</u>

Note:

1. Represented direct and indirect purchases from Euro Asia Packaging via European Asia Industrial.

BUSINESS

For the year ended 31 December 2018

<i>Rank</i>	<i>Name of suppliers</i>	<i>Principal business activities carried on by supplier</i>	<i>Type of main products provided</i>	<i>Approximate years of business relationship</i>	<i>Purchase amount</i> <i>(HK\$'000)</i>	<i>Percentage of total cost of sales</i>
1.	Euro Asia Packaging <i>(Note 1)</i>	Manufacturing and sale of packaging materials	Aluminum cans	11	27,213	6.0%
2.	Supplier D	Domestic wholesale of fuel oil, paraffin oil and lubricant, methanol, gas condensate, solvent oil, naphtha, pitch and aromatic	Liquefied petroleum gas	8	22,217	4.9%
3.	Supplier A	Processing, production and operating of all kinds of tinplate packaging container, printed tinplate, tinplate and different kinds of packaging material products	Aerosol cans	11	21,339	4.7%
4.	Supplier G	Wholesale of dangerous chemicals, and sale of steam, condensate water and hot water	Solvents	6	19,930	4.4%
5.	Supplier F	Manufacturing and processing of metal materials, wholesale of the gasoline, diesel and kerosene used for shipping industry system	Solvents	5	18,066	4.0%
Total:					<u>108,765</u>	<u>24.0%</u>

Note:

1. Represented direct and indirect purchases from Euro Asia Packaging via European Asia Industrial and Hong Kong Aluminum Cans.

For the three years ended 31 December 2018, costs of purchases from our top five suppliers were approximately HK\$100.8 million, HK\$97.3 million and HK\$108.8 million, representing approximately 29.0%, 26.2%, and 24.0% of our total costs of sales, respectively. For the three years ended 31 December 2018, costs of purchases from our largest supplier amounted to approximately HK\$32.9 million, HK\$23.9 million and HK\$27.2 million, representing approximately 9.5%, 6.5% and 6.0% of our total costs of sales, respectively.

BUSINESS

Independence of our top five suppliers

As at the Latest Practicable Date, one of our Controlling Shareholders, Mr. Lin indirectly held more than 30% of the issued share capital of Euro Asia Packaging, which was one of our top five suppliers for the two years ended 31 December 2018. Euro Asia Packaging is therefore a connected person of our Company. We expect to continue to purchase aluminum cans from Euro Asia Packaging for the next three years ending 31 December 2021. Please refer to the section headed “Continuing connected transactions” in this listing document for more details.

Our Directors confirm that save as disclosed above, all of our top five suppliers are Independent Third Parties, and none of our Directors, their respective close associates or any Shareholder who, to the best knowledge and information of our Directors, owned more than 5% of the issued share capital of our Company, had any interest in any of our Group’s top five suppliers during the Track Record Period.

ENVIRONMENTAL MATTERS

We are subject to PRC environmental laws, regulations and standards including the Environmental Protection Law of the PRC* (中華人民共和國環境保護法). Please refer to the section headed “Regulatory overview” in this listing document for details of applicable PRC environmental laws, regulations and standards.

The content of our products include propellant, which is a compressed gas that is used to dispense the contents of an aerosol container when the pressure of the container is released. The propellant we use in our production can be broadly classified into VOC (such as dimethyl ether (“DME”) and liquefied petroleum gas) and non-VOC (such as carbon dioxide and nitrogen) categories and we mainly use DME and liquefied petroleum gas as propellant for our products. Our production involves the use and storage of such propellant gases which are flammable and/or explosive and to a certain extent, environmentally hazardous. In determining the type of propellant used in our products, we will take into consideration the functional requirement of the relevant products, the costs of purchase, the regulatory requirements imposed by the governmental authorities and the overall safety of our products. We are prone to use propellant that is more environmentally-friendly and cost efficient.

As our production process involves the use and storage of hazardous materials, it is always our top concern to comply with the applicable environmental laws and regulations in the PRC and avoid the occurrence of any environmental contamination event during our production activities. As a result, we continuously observe the laws and regulations in relation to environmental protection as amended from time to time in the PRC. In practice, in order to properly control the disposal of our production wastes, we have formulated detailed environmental protection rules and guidance for our staff to follow during production. In addition, to ensure that the quantities and rates of our production discharge are in compliance with the applicable environmental laws and regulations, we engage qualified third-party pollutant supervision companies to examine, monitor and provide advices on our pollutant discharge conditions for each financial year.

BUSINESS

During the Track Record Period and up to the Latest Practicable Date, as advised by our PRC Legal Advisers, we had complied with the applicable PRC environmental laws and regulations in all material respects, and that we were not subject to any material fines or legal actions involving non-compliance with any relevant regulations in the PRC.

For each of the three years ended 31 December 2018, environmental compliance cost (including cost in relation to the construction of a septic tank and sewage treatment fee) amounted to approximately HK\$0.2 million, HK\$0.9 million and HK\$70,000 respectively.

OCCUPATIONAL SAFETY

We are subject to PRC labour, safety and work-related laws and regulations including the Law on Production Safety of the PRC* (中華人民共和國安全生產法). Please refer to the section headed “Regulatory overview” in this listing document for more details.

As at the Latest Practicable Date, our safety department had seven employees. We have already established a work safety system which includes a system for recording and handling accidents for its production facilities and formulated a number of guidelines in this regard. Our Group holds regular safety training sessions for its employees.

According to the confirmations issued by Guangzhou Conghua Administration of Work Safety* (廣州市從化區安全生產監督管理局) (the “**Conghua Work Safety Administration**”) on 27 February 2018, 24 March 2018, 12 July 2018, 17 July 2018 and 12 February 2019, respectively, during the Track Record Period, neither Guangzhou Botny nor Guangzhou Euro Asia was involved in any fatal accidents or was fined for any material contravention of relevant work safety laws by the Conghua Work Safety Administration. Our PRC Legal Advisers consider the Conghua Work Safety Administration to be a competent authority to advise on the work safety issues of Guangzhou Botny and Guangzhou Euro Asia.

EMPLOYEES

As at the Latest Practicable Date, we had 483 employees (exclusive of Directors), of whom 480, two and one employees were based in the PRC, Hong Kong and Japan, respectively. A breakdown of our employees by function is set forth below:

Function	Number of employees
Sales and marketing	72
Production	229
Procurement	8
Quality control and technical supervision	68
Safety	7
Warehousing	44
Finance	12
Human resources, administration and information support	43
Total:	483

BUSINESS

In addition, as at the Latest Practicable Date, we had seven Directors including four executive Directors and three independent non-executive Directors.

Full-time staff in the PRC are usually paid a monthly basic salary and are entitled to statutory paid leave. Their employee benefits may also include a performance-based commission. As advised by our PRC Legal Advisers, we contributed to social insurance and housing fund for our employees in compliance with applicable statutory requirements in the PRC during the Track Record Period.

During the Track Record Period, we also engaged dispatch workers through an external employment agent. Our external employment agent charged us a management fee which ranged from RMB2.00 to RMB2.50 per hour per worker, and we paid wages to these staff through our employment agent. Our external employment agent was responsible for paying the social insurance and housing fund contributions for the dispatched workers, the expenses of which were included in the abovementioned expenses we paid to the external employment agent.

We subsequently terminated the labour dispatch arrangement and entered into the labour outsourcing agreements with a human resources company in September 2018. As we have outsourced the recruitment of some production staff, the number of employees decreased from 551 as at 31 December 2017 to 483 as at the Latest Practicable Date (exclusive of the relevant Directors).

Our Directors consider that our Group has maintained a good relationship with our employees and is expected to remain amicable in the future. During the Track Record Period and up to the Latest Practicable Date, there was no incident of disruption of work which had an adverse impact on our operation, no material dispute between our Group and our employees and no labour union was established by our employees.

We believe that our employees are valuable assets to our Group. From time to time, our employees receive on-job training.

We have not experienced any difficulties in replacing outgoing staff or recruiting experienced staff or skilled personnel. We recruit employees primarily through open market through posting of advertisements online or internal referrals by our other employees.

INSURANCE

We have maintained property insurance which covers our production facilities (including inventory and machinery and equipment), work safety liability insurance which covers work injuries at our production facilities, products liability insurance in relation to our automotive beauty and maintenance products and property insurance which cover our vehicles.

We are required under relevant PRC laws and regulations to pay social insurance and housing provident fund for our employees. Please refer to the section headed “Business — Employees” in this listing document for more details.

BUSINESS

We believe that we are covered by adequate property and liability insurance policies which are customary for similar companies in the PRC. However, our insurance coverage may not be adequate to cover all losses that may occur. Please refer to the section headed “Risk Factors — Our insurance coverage may not be sufficient to cover all risks in relation to our business operations” in this listing document for more details.

PROPERTIES

Owned properties

As at the Latest Practicable Date, our Group owned the following properties:

1. a parcel of land with a site area of approximately 66,047.00 sq.m situated at No. 628 Jufeng North Road, Aotou Town, Conghua District, Guangzhou City, Guangdong Province, the PRC* (中國廣東省廣州市從化區鰲頭鎮聚豐北路628號) (i.e. the North Jufeng Land) on which our North Jufeng Plant, research and development centre, ancillary facilities, offices and staff quarters are constructed with a total gross floor area of approximately 26,816.95 sq.m. The property is subject to a mortgage in favor of a bank in the PRC;
2. 3 parcels of land with a total site area of approximately 18,631.60 sq.m. situated at Nos. 11-12 Tai Yuan Road, Conghua Economic Technology Development Zone, Conghua District, Guangzhou City, Guangdong Province, the PRC* (中國廣東省廣州市從化區經濟技術開發區太源路11-12號) on which our Tai Yuan Plant, ancillary facilities, offices and warehouse are constructed with a total gross floor area of approximately 13,653.33 sq.m. Our ownership of one of the warehouses is subject to a mortgage in favour of a bank in the PRC; and
3. a parcel of land with a site area of 63,623.00 sq.m. situated at Xinqu Village, Aotou Town, Conghua District, Guangzhou City, Guangdong Province, the PRC* (中國廣東省廣州市從化區鰲頭鎮西湖村地段) on which various buildings, and structures are proposed to be developed with a total gross floor area of approximately 15,525.54 sq.m (i.e. the Xihucun Land). The property is subject to a mortgage in favor of a bank in the PRC.

As advised by our PRC Legal Advisers, state-owned land use right certificates and/or building ownership right certificates have been issued in respect of these parcels of land and the buildings erected thereon, except that we have not received building ownership right certificates for certain structures erected on the North Jufeng Land. Please refer to the section headed “Business — Non-compliance” in this listing document for further details.

We are engaged in non-property activities for the purpose of Rule 5.01 of the Listing Rules. The property valuation report in Appendix III in this listing document have set out the details and market values of our properties as of 31 March 2019. As required by Rule 5.01B(2)(b) of the Listing Rules, we confirm that, except for the property interests in the valuation report in Appendix III in this listing document, no single property has a carrying amount of 15% or more of our total assets as of 31 December 2018.

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Leased properties

As at the Latest Practicable Date, our Group held the following properties on lease:

1. an office that is situated at Office Unit G, 20th Floor, Golden Sun Centre, Nos. 59/67 Bonham Strand West, Hong Kong. The landlord is Mr. Lin. Please refer to the section headed “Continuing connected transactions” in this listing document for further details; and
2. an office that is situated at Room 405 Esaka Building, 1-30 Toyotsu-cho, Suita-shi, Osaka-fu, Japan. The landlord is an Independent Third Party.

INTELLECTUAL PROPERTIES

We supply our OBM products under a number of trademarks, including but not limited to BOTNY (保賜利), ATM, FOX-D (狐狸), ETOMAN (已度明), NISSEI, WIN (勝彩), PISCIS (百麗時) and PARLUX (派樂士). As at the Latest Practicable Date, we had 200 registered trademarks, six registered invention patents and 12 registered utility model patents in the PRC, one registered trademark in Japan, five registered trademarks in Hong Kong, one registered trademark in Spain and three registered trademarks in South Korea. We are in the process of applying for the registration of 103 trademarks in the PRC and other trademarks in Singapore, Chile, Taiwan, Malaysia, Pakistan, South Korea, Sri Lanka and the United States. For the intellectual properties which are material to our business, please refer to the section headed “Appendix V — Statutory and general information — C. Intellectual property rights of our Group” in this listing document for more details.

Our standard employment contract contains a confidentiality clause to protect our proprietary rights in formulae and technologies we develop and other trade secrets. The ownership of formulae and technologies belong to us, not the employees who developed the formulae and technologies.

From time to time, we are required to enter into confidentiality agreements or trademark licensing agreements with our CMS customers for the protection of our customers’ proprietary rights in formulae and technologies they develop and other trade secrets.

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any infringement of our intellectual property rights, or faced or had been threatened with any proceedings concerning material claims by third parties alleging breach of their intellectual property rights by us.

LEGAL COMPLIANCE

Guangzhou Botny holds a valid production safety license (with an expiry date on 12 June 2019) for the Tai Yuan Plant whereas Guangzhou Euro Asia holds a valid production safety license (with an expiry date on 25 July 2021) and is responsible for the production safety of our Group’s production conducted in the North Jufeng Plant. As at the Latest Practicable Date, our Company was in the process of renewing the production safety licence for the Tai Yuan Plant and our PRC Legal Advisers advise and our Directors confirm that there is no legal impediment to such renewal. As advised by our PRC Legal Advisers and confirmed by our Directors, save as disclosed in the section headed

BUSINESS

“Business — Non-compliance” in this listing document, we had (i) obtained all necessary licences, permits or certificates that are material to conduct our business; (ii) complied in our operations with all relevant PRC laws, rules and regulations in all material aspects; and (iii) obtained confirmations from relevant administration for industry and commerce, land tax bureau, national tax bureau, human resources and social security bureau, housing provident fund management center, customs, quality supervision bureau, and work safety bureau, all being the competent authorities, that no records of material violation of relevant laws and regulations were found during the Track Record Period.

A majority of our overseas sales is sold on a CMS basis in that we are to manufacture products using product formulas supplied by our customers, or develop product formulas strictly in accordance with the customer’s requirements and/or specifications, as the case may be. As confirmed by our Directors, during the Track Record Period, no material complaint or warning was received in respect of our products violating any overseas laws or regulations.

During the Track Record Period, Japan was the top overseas market (based on the registered offices of our customers) for our CMS products. Our Company has an indirect wholly-owned subsidiary, Euro Asia Japan, in Japan. As advised by our Japanese legal advisers, during the Track Record Period, Euro Asia Japan and each of its past and current directors and shareholders complied with all relevant laws and regulations in Japan applicable to the conducting of business by Euro Asia Japan including regulations relating to product liability, customs and the relevant industries.

Transfer pricing

During the Track Record Period, the flows of our raw materials and finished goods were as follows (the “**Transfer Pricing Arrangement**”):

- (i) Guangzhou Botny purchased raw materials via Botny and Botny HK;
- (ii) Guangzhou Botny sold our products to our customers via Botny, Botny HK and Euro Asia Japan;
- (iii) Guangzhou Euro Asia purchased raw materials via Botny HK, China Medical Beauty and European Asia Industrial; and
- (iv) Guangzhou Euro Asia sold our products to our customers via Botny HK and European Asia Industrial.

Each of the aforesaid entities can be characterised as follows:

- (i) Guangzhou Botny and Guangzhou Euro Asia are characterised as full-function principal entity of our aerosol product business, responsible for manufacturing and sales of aerosol products, and bear relevant market risks, product liability risks, credit risks, etc.; and
- (ii) Botny, Botny HK, European Asia Industrial and Euro Asia Japan are characterised as distributors with very limited functions and risks.

BUSINESS

In view of the immaterial amounts of the inter-company transactions associated with Euro Asia Japan and China Medical Beauty (newly incorporated in November 2017) during the Track Record Period, we did not engage any tax adviser to evaluate the related tax exposure. Other than the above, a tax adviser (the “**Tax Adviser**”) was engaged to perform a transfer pricing analysis in relation to the remaining cross-border intra-group transactions (the “**Transactions**”) during the Track Record Period. According to the Tax Adviser, from our Group’s consolidated perspective, the transfer pricing tax exposure arising from the Transactions during the Track Record Period were HK\$509, HK\$25,014 and HK\$88,304, representing approximately 0.00%, 0.00% and 0.21% of our profit attributable to equity holders of our Company, respectively. Taking into account (i) the transaction amounts involved in the Transfer Pricing Arrangement; and (ii) the benchmarking analysis on the profit margins of comparable companies, our Directors consider that the Transfer Pricing Arrangement has immaterial tax exposure from our Group’s overall perspective.

NON-COMPLIANCE

Save as disclosed below, the operation of our Group was in material compliance with the applicable laws and regulations during the Track Record Period and up to the Latest Practicable Date.

Non-compliance incidents and reasons for non-compliance

Legal consequences and potential maximum penalties on our Group

Remedial measures taken/to be taken

1. Structures without valid building ownership certificates

As at the Latest Practicable Date, each of the 5 structures (including a research and development centre, a switch-board room, a security guard room, a tennis court and a boiler room, collectively, the “**Structures**”) erected on the North Jufeng Land did not hold a building ownership certificate. Together, the Structures have a gross floor area of approximately 3,185.27 sq.m.. In December 2010, Guangzhou Euro Asia obtained the construction planning permits (建築工程規劃許可証) for the research and development centre, the switch-board room and the boiler room but such structures were not subject to completion inspection (竣工驗收). No construction planning permits for the security guard room and the tennis court were obtained. Such non-compliance incident was due to unintended and inadvertent oversight of the relevant PRC laws and regulations by our staff.

As at 31 December 2016, 2017 and 2018, the net carrying amount of the Structures was approximately HK\$3.5 million, HK\$3.5 million and HK\$3.1 million, respectively.

As advised by our PRC Legal Advisers, as stipulated by Section 64 of the Urban and Rural Planning Law of the PRC* (中華人民共和國城鄉規劃法), where construction works are not implemented in accordance with the requirements set out in the construction planning permit or the construction works commenced before obtaining such permit, in the case where such defect is rectifiable, the competent authority may order the defaulting party to rectify such defect within a prescribed period, as well as imposing a fine between 5% to 10% of the total construction cost. In the case where such defect is not rectifiable, the competent authority may order the demolition of the illegal structures within a prescribed period or where demolition is not performed within the prescribed period, forfeit the illegal structures or any income derived from such illegal structures, as well as imposing a fine up to 10% of the total construction cost.

Our PRC Legal Advisers consider that given the Structures were put in use without being inspected and certified in accordance with the applicable PRC construction planning laws and regulations, there is a risk that the competent authority may order the demolition of the Structures and/or a fine up to 10% of the total construction cost may be imposed. As confirmed by our Directors, the total construction cost of the relevant structures amounted to approximately RMB4.2 million. Based on the aforesaid, the maximum fine in such connection is approximately RMB425,000.

During the Track Record Period and up to the Latest Practicable Date, no intervention or penalties have been imposed by the competent authority in relation to the construction of the Structures or our use of such Structures. As confirmed by our PRC Legal Advisers, none of our Group’s major production activities was carried out in the Structures during the Track Record Period and the Structures are replaceable structures as not being any material production facilities. Should these structures be demolished, it would not have any significant impact on the business operations of our Group as a whole.

Our Controlling Shareholders have agreed to indemnify our Group against any actions, claims, losses, payments, settlement payments, penalties, damages, costs, charges or expenses that may be suffered or incurred by our Group in respect of or arising directly or indirectly from any title defects of the Structures.

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Non-compliance incidents and reasons for non-compliance

2. Dispatched labour

During the Track Record Period, Guangzhou Euro Asia entered into various labour dispatch agreements (the “**Labour Dispatch Agreement(s)**”) with a labour dispatch entity for its provision of labour dispatch services. From time to time, Guangzhou Euro Asia, and Guangzhou Botny who shared the labour dispatch services from Guangzhou Euro Asia under the said Labour Dispatch Agreements, engaged and utilised dispatched staff when it required a large amount of temporary workforce to assist our technical staff due to operation and production need.

Pursuant to the provisional regulations on labour dispatch* (勞務派遣暫行規定) promulgated by the ministry of human resources and social security, employers shall strictly control the number of labour dispatch workers, and the number of dispatched workers shall not exceed 10% of the total labour force. There were occasions during the period commencing September 2016 to August 2018, where the number of dispatched staff engaged by Guangzhou Botny and Guangzhou Euro Asia had exceeded the regulatory threshold of 10% of the total number of their respective workers. During the Track Record Period, we experienced relatively high staff turnover rate in certain production processes such as packaging, folding and gluing as well as other support functions such as security and cleaning. For the purpose of reducing the amount of time and manpower involved in the recruitment of these staff, Guangzhou Euro Asia and Guangzhou Botny decided to utilise a certain number of dispatched staff to undertake the above functions. However, due to the absent of professional advices for relevant staff in charge of recruiting those dispatched staff, the number of dispatched staff utilised by Guangzhou Euro Asia and Guangzhou Botny have exceeded the regulatory threshold.

Legal consequences and potential maximum penalties on our Group

According to the labour contract law of the People’s Republic of China* (中華人民共和國勞動合同法), if the employing unit violates the relevant provisions of the law on labour dispatching, the labour administrative department shall order it to rectify such violation within a time limit. If the employing unit fails to rectify the violation after being so ordered by the competent labour authorities, the competent labour authorities may order a fine between RMB5,000 to RMB10,000 per dispatched staff utilised in violation of the provisional regulations on labour dispatch* (勞務派遣暫行規定).

As advised by our PRC Legal Advisers after consulting with the relevant local enforcement authority, the actual amount of penalty imposed would be assessed on a case-by-case basis after taken into consideration any specific circumstances of a particular case, and, in principle, no administrative penalties would be imposed on an entity that has ceased its violation against the relevant labour laws and regulations.

As at the Latest Practicable Date, each of Guangzhou Botny and Guangzhou Euro Asia had not received any notice of rectification from the relevant labour administrative departments, and each of Guangzhou Botny and Guangzhou Euro Asia had obtained the compliance certificates issued by relevant department in charge of labour affairs, confirming that no records of any violation of labour laws and regulations were found during the Track Record Period.

Remedial measures taken/to be taken

To rectify the situation, on 1 September 2018, Guangzhou Euro Asia terminated the Labour Dispatch Agreement then in force with the relevant labour dispatch entity, and each of Guangzhou Botny and Guangzhou Euro Asia entered into a labour outsourcing agreement (the “**Labour Outsourcing Agreement(s)**”) with a human resources company respectively, pursuant to which, among others, the relevant human resources company would be responsible for the management of the sub-contracting staff including entering into labour contracts with such sub-contracting staff and be responsible for paying their wages. According to our PRC Legal Advisers, the Labour Dispatch Agreements and the Labour Outsourcing Agreements are subject to different applicable PRC laws — the Labour Dispatch Agreements are governed by the Labour Contract Law of the PRC* (中華人民共和國勞動合同法), while the Labour Outsourcing Agreements are governed by the Contract Law of the PRC* (中華人民共和國合同法). Furthermore, our Group would be held jointly liable with the relevant labour dispatch entity to the utilised dispatched staff under the labour dispatch arrangement, while our Group does not have any contractual relationship with such sub-contracting staff, and therefore, shall not be liable to such sub-contracting staff under the labour outsourcing arrangement. As advised by our PRC Legal Advisers, the Labour Outsourcing Agreements constitute valid contracts and are legally binding.

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Non-compliance incidents and reasons for non-compliance

Legal consequences and potential maximum penalties on our Group

Remedial measures taken/to be taken

Given that (i) we have already rectified the situation by terminating the Labour Dispatch Agreement then in force and entered into the Labour Outsourcing Agreements; (ii) each of Guangzhou Botny and Guangzhou Euro Asia had not received any notice of rectification from the relevant labour administrative departments; and (iii) each of Guangzhou Botny and Guangzhou Euro Asia had obtained the compliance certificates issued by relevant department in charge of labour affairs (which, as advised by our PRC Legal Advisers, is the competent authority in connection with the issuance of such compliance certificates), confirming that no records of any violation of labour laws and regulations were found during the Track Record Period, our PRC Legal Advisers are of the opinion that Guangzhou Botny and Guangzhou Euro Asia being penalised by the relevant labour administrative departments resulting from the fact that their respective number of dispatched staff having exceeded 10% of the total number of workers during the Track Record Period is low.

Our Controlling Shareholders have agreed to indemnify our Group against any actions, claims, losses, payments, settlement payments, penalties, damages, costs, charges or expenses that may be suffered or incurred by our Group in respect of or arising directly or indirectly from the dispatched staff non-compliance.

INTERNAL CONTROL MEASURES TO PREVENT FUTURE NON-COMPLIANCE AND IMPROVE CORPORATE GOVERNANCE

In order to maintain an effective internal control system, we engaged an independent internal control consultant (the “**Internal Control Consultant**”) in January 2018 to perform an internal control review and a subsequent follow-up review of our Group’s internal control system, covering areas such as corporate governance, operations, management, human resources and finance.

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Based on the Internal Control Consultant's review and recommendations, our Group has adopted measures and policies to improve our internal control systems, to prevent incidents of non-compliance and to ensure our compliance with the Listing Rules and relevant regulatory requirements (including corporate governance policies and compliance). After the Internal Control Consultant performed their follow-up review which was completed in August 2018, they did not identify any material deficiencies in our internal control system. All the remedial measures to rectify any previous non-compliance of our Group and any deficiency in our internal control system have been or will be fully implemented by us before the Listing.

We have taken additional internal control measures to improve our corporate governance and internal controls to ensure on-going compliance with applicable laws and regulations. Our Group has adopted or intends to adopt the following measures:

- (i) our Directors attended training sessions conducted by our Company's Hong Kong legal advisers on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange;
- (ii) our Company has appointed Mr. Lee Kam Fai as our company secretary. Mr. Lee Kam Fai will act as the principal channel of communication between our Group and our Board in relation to legal, regulatory and financial reporting compliance matters of our Group as well as the chief coordinator to oversee the internal control procedures in general. Upon receipt of any queries or reports on legal, regulatory and financial reporting compliance matters, our company secretary will look into the matter and, if considered appropriate, seek advice, guidance and recommendations from professional advisers before reporting to relevant members of our Group and/or our Board. Details of Mr. Lee Kam Fai's qualifications and experience are set out in the section headed "Directors, senior management and employees" in this listing document;
- (iii) our Company has appointed China Tonghai Capital Limited as our compliance adviser to advise our Group on compliance matters upon Listing in accordance with Rule 3A.19 of the Listing Rules;
- (iv) our Group will establish the Audit Committee with written terms of reference in accordance with Appendix 14 to the Listing Rules to review the internal control system and procedures for compliance with the requirements of the Listing Rules, the Companies Ordinance and other applicable laws, rules and regulations; and
- (v) our Company proposes to appoint an internal control consultant or employ an internal auditor to provide advice and review our internal control system regarding internal control matters on a regular basis after Listing.

With the assistance of our compliance adviser, the internal control consultant and our company secretary, we aim to ensure that our Group's operations are in compliance with the applicable laws, rules and regulations with respect to our business operations primarily in the PRC. The internal control consultant will conduct regular internal control reviews on our operations and recommend remedial plans to our Audit Committee, which will then advise our Board on the implementation of any remedial plans should there be any material internal control deficiencies. Our Board will make

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final decisions on the implementation of the remedial plans. To ensure all the remedial plans are implemented, the internal control consultant will follow up and monitor the implementation and report to the Audit Committee about the progress and results of the remedial plans. Any material internal control failure, weaknesses or deficiencies identified during the review process and the relevant follow up or remedial measures (if applicable) taken by our Group will be disclosed in our annual report after the Listing.

Views of our Directors and the Sole Sponsor

Our Directors are of the view that (i) the abovementioned non-compliance incidents are not related to the character of our Directors and do not raise any serious concern on the integrity of them as such incidents did not involve any fraudulent or dishonest acts by our Directors; and (ii) we have taken all reasonable steps to establish a proper internal control system to prevent future non-compliance with the relevant laws and regulations.

Our Directors are satisfied and the Sole Sponsor concurs that having considered our Group's internal control measures to avoid recurrence of the non-compliance incidents, and the preventive measures disclosed in this listing document, we have adequate and effective internal control procedures in place and the non-compliances incidents described above would not affect the suitability of our Directors and the suitability for listing of our Company under the Listing Rules on the following basis:

- (i) we have taken steps to improve our internal control and corporate governance system as referred to above;
- (ii) the non-compliance incidents are not expected to have any material adverse impact on us and our Directors as each of our Controlling Shareholders has given us an indemnity in favour of our Group against any actions, claims, losses, payments, charges, settlement payment, costs, penalties, damages or expenses which any or all of the member of our Group may incur or suffer as a result of or in connection with any failure by any or all of the member of our Group to comply with relevant laws and regulations upon or before the Listing Date;
- (iii) as a result of the occurrence of the abovementioned non-compliance incidents, our Directors confirm that they are alert to any issues that might result in any non-compliance and that there are measures in place for preventing recurrence of non-compliance as disclosed above and consider such measures to be adequate and effective; and
- (iv) our Directors are aware of their responsibilities and obligations as directors of a listed issuer pursuant to the Listing Rules and have undertaken to observe and comply with all the relevant laws, rules and regulations.

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BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

During the Track Record Period, we made sales of our aerosol and non-aerosol products to certain customers located in Countries subject to International Sanctions, including Afghanistan, Lebanon, Russia, Iran, Iraq, Yemen and Haiti. We also had a transaction with a Sudanese customer in April 2014. Iran is subject to OFAC's comprehensive sanctions program under the Iranian Transactions and Sanctions Regulations. Sudan was also subject to comprehensive sanctions until 12 October 2017. During the Track Record Period, our revenue derived from sales to these customers amounted to approximately HK\$5.2 million, HK\$4.9 million and HK\$2.1 million, representing approximately 1.0%, 0.9% and 0.3% of our total revenue for the three years ended 31 December 2018, respectively.

As noted under the section headed "Business — Business activities in Countries subject to International Sanctions — Sanctions risk — U.S." in this listing document, between 2013 to 2018, we received indirectly twelve (12) payments and two (2) payments in U.S. dollars from two customers in Iran and a customer in Sudan, respectively, that may have violated International Sanctions. However, as advised by our International Sanctions Legal Advisers, we have disclosed these transactions to OFAC in our VSD filing, and believe that no material adverse effect on our financial condition will result from these potential violations. Subject to the results of our VSD filing, our sales to customers in Countries subject to International Sanctions during the Track Record Period do not implicate restrictions under International Sanctions. Further, given the scope of our Spin-off, our International Sanctions Legal Advisers are of the view that the involvement by parties in the Spin-off will not implicate any applicable International Sanctions on such parties, including our Company, our investors and shareholders, the Stock Exchange and its Listing Committee and group companies, or any person involved in the Spin-off and accordingly, the sanction risk exposure to our Company, investors and shareholders, and persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of our Shares (including the Stock Exchange, its Listing Committee and related group companies) is very low.

OFAC is currently reviewing our VSD. As at the Latest Practicable Date, our Directors confirm that we have not been notified that any International Sanctions penalties will be imposed on us for our sales and/or deliveries to Countries subject to International Sanctions. Furthermore, none of the counterparties involved in our sales to Countries subject to International Sanctions are specifically identified on the SDN List or other restricted parties lists maintained by the European Union, the United Nations and Australia and therefore would not be deemed as sanctioned targets. Finally, such sales do not involve industries or sectors that were subject to International Sanctions at the time they occurred and therefore are not deemed to be prohibited activities under the relevant International Sanctions laws and regulations.

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Sanctions risk

The U.S. and other jurisdictions or organisations, including the European Union, the United Nations and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries. For a summary of the sanctions regimes imposed by the U.S., the European Union, the United Nations and Australian, please refer to the section headed “Regulatory overview — Sanctions laws and regulations” in this listing document.

U.S.

Between 2013 and 2018, we had (i) twelve (12) U.S. dollar payments in an aggregate amount of approximately US\$349,194 received relating to our goods sold and delivered to Iran; and (ii) two (2) U.S. dollar payments in an aggregate amount of approximately US\$36,877 received relating to our goods sold and delivered to Sudan, which appeared to be potential violations of U.S. sanctions regulations relating to Iran and Sudan. We received these U.S. dollar payments from third party intermediaries who made payments on behalf of these customers with respect to the goods delivered to Iran and Sudan, respectively, which were processed in the U.S. financial system before receipt by our Group. Upon the advice of our International Sanctions Legal Advisers, in September 2018, we submitted a VSD to OFAC to address our potential violations, given that the U.S. financial system cannot process Iran and Sudan-related payments denominated in U.S. Dollars without prior authorisation by OFAC. Our Directors confirm that these USD-denominated payments did not involve any international wrongdoing but rather were due to a lack of awareness of the applicability of U.S. sanctions to USD payments. To be certain that all of our Group’s issues under International Sanctions law had been identified and addressed in the VSD filing, and that no other International Sanctions law or regulations had been implicated by our operations, our International Sanctions Legal Advisers performed the following procedures on our sales to the Countries subject to International Sanctions during the Track Record Period: (i) reviewed our documents that evidence the sale of our products to Countries subject to International Sanctions during the Track Record Period; (ii) reviewed our list of customers to whom such sales of products to Countries subject to International Sanctions have been made during the Track Record Period against the lists of Sanctioned Persons, and confirmed that none of our customers are on such lists. Our Directors confirm that neither our Group nor any of our affiliates conducted any business dealings in or with any other countries or persons that are the subject of International Sanctions during the Track Record Period except for the sales for which all documentation had been provided to our International Sanctions Legal Advisers.

OFAC is currently reviewing our VSD, and we have not received responses from OFAC as to its rulings or applicable penalty. Our International Sanctions Legal Advisers are working actively to make sure that OFAC has all the required information to resolve this issue. Our International Sanctions Legal Adviser have advised us that, based on their experience in working with companies presenting similar facts before OFAC, that there are a few limited potential outcomes from our VSD submission. First, the most likely result of the VSD will be a cautionary letter issued by OFAC to close out the case without the imposition of any penalty. In the second and less likely outcome, we could be required to pay an administrative penalty for these transactions. The potential penalties for violations of the U.S. sanctions regulations in this case include a monetary fine of up to approximately US\$193,036 based on the relevant enforcement guidelines and the payments identified by the

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Company as possibly being processed through the U.S. financial system, although any such amount likely would be further reduced by OFAC during the negotiated settlement process by taking into account mitigating factors and the most likely amount would range from approximately US\$19,304 to US\$135,125 after mitigation. Based on the value of the fourteen (14) payments that may have been processed through the U.S. financial system, and our discussions with our International Sanctions Legal Advisers, our Directors are of the view that the maximum administrative penalty that we could be required to pay would not have a material adverse effect on our financial condition or results of operations. As advised by our International Sanctions Legal Advisers, our business dealings with customers in Countries subject to International Sanctions other than Iran and Sudan, including Afghanistan, Lebanon, Russia, Iraq, Yemen and Haiti do not appear to be inconsistent with the applicable U.S. sanctions or U.S. export control laws, given that (i) we have not undertaken, either directly or indirectly, a contract or any other activity with a counterparty, nor have otherwise provided goods or services to any person, in Cuba, North Korea, Syria or the Crimea region of Ukraine/Russia (these countries or territories are currently subject to comprehensive U.S. sanctions) or with or to any individuals, entities or organisations that have been designated on the SDN List during the Track Record Period; (ii) no services have been exported, directly or indirectly, to any persons or entities identified on The U.S. Department of Commerce, Bureau of Industry and Security List; and (iii) our business activities in Afghanistan, Lebanon, Russia, Iraq, Yemen and Haiti are limited to the sale of aerosol and non-aerosol products which U.S. extraterritorial sanctions and U.S. export control laws do not appear to have been implicated.

United Nations

On the basis that the counterparties identified as being located in Countries subject to International Sanctions are not specifically designated under any existing United Nations sanctions regime, and our Group's dealings in the Countries subject to International Sanctions relate solely to the sales of aerosol and non-aerosol products, upon the advice of our International Sanctions Legal Advisers, our business dealings do not appear to implicate restrictive measures adopted by the United Nations.

European Union

Upon the advice of our International Sanctions Legal Advisers, our business dealings with respect to the identified customers in Afghanistan, Lebanon, Russia, Iran, Iraq, Sudan, Yemen and Haiti do not trigger the prohibitions or wider restrictions adopted by the European Union, including those extended to the United Kingdom ("UK") overseas territories, since such business activities were not undertaken by European Union or UK overseas territories persons or entities and are limited to the supply of aerosol and non-aerosol products which are not export-controlled in the European Union or UK Overseas Territories or involved in the export from the European Union or UK Overseas Territories of certain listed military or items that are normally used for civilian purposes but may have military applications.

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Australia

Upon the advice of our International Sanctions Legal Advisers, on the basis that neither our Company nor any of our subsidiaries are connected to Australia in ways mentioned above and our dealings do not appear to involve products or services that are restricted under Australian export controls, our activities do not implicate the prohibitions or wider restrictions under International Sanctions measures administered and enforced by the Government of Australia.

Our undertakings and internal control procedures

We have ceased all transactions with customers in Iran. We shall cease our sales to Countries subject to International Sanctions or with Sanctioned Persons prior to the Listing.

We have undertaken not to enter into any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders and investors to violate or become a target of sanctions laws by the U.S., the European Union, the United Nations or Australia. We will also disclose on the respective websites of the Stock Exchange and our Group if we believe that the transactions our Group enter into relating to Countries subject to International Sanctions or with Sanctioned Persons would put our Group or our Shareholders and investors to risks of being sanctioned, and in our annual reports or interim reports our efforts on monitoring our business exposure to sanctions risk, the status of future business, if any, in Countries subject to International Sanctions and with Sanctioned Persons and our business intention relating to Countries subject to International Sanctions and with Sanctioned Persons. If we were in breach of such undertakings to the Stock Exchange, we would be subject to the risk of possible delisting of our Shares on the Stock Exchange.

We have adopted enhanced internal control and risk management measures to help us continuously monitor and evaluate our business and take measures to protect the interest of our Group and our Shareholders from economic sanctions risks. The following measures have been implemented as at the Latest Practicable Date:

- to further enhance our existing internal risk management functions, our Board will monitor our exposure to sanctions risks and our implementation of the related internal control procedures;
- we will evaluate the sanctions risks prior to determining whether we should embark on any business opportunities in Countries subject to International Sanctions and with Sanctioned Persons. According to our internal control procedures, our Board needs to review and approve all relevant business transaction documentation from customers or potential customers from Countries subject to International Sanctions and with Sanctioned Persons. In particular, our Board will review the information (such as identity and nature of business as well as its ownership) relating to the counterparty to the contract along with the draft business transaction documentation. Our Board will check the counterparty against the various lists of restricted parties and countries maintained by the U.S., the European Union, United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person

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located in Countries subject to International Sanctions or a Sanctioned Person. If any potential sanctions risk is identified, we will seek advice from reputable external international legal counsel with necessary expertise and experience in International Sanctions matters;

- our Board will periodically review our internal control policies and procedures with respect to sanctions matters. As and when our Board considers necessary, we will retain external international legal counsel with necessary expertise and experience in sanctions matters for recommendations and advice; and
- if necessary, external international legal counsel will provide training programs relating to the sanctions to our Directors, our senior management and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations. Our external international legal counsel will provide current list of Countries subject to International Sanctions and Sanctioned Persons to our Directors, senior management and other relevant personnel, who will in turn disseminate such information throughout our domestic operations and overseas offices and branches.

Our International Sanctions Legal Advisers have reviewed and evaluated these internal control measures and are of the view that these measures are adequate and effective for our Company to comply with our undertaking to the Stock Exchange.

Having taken the above advice of our International Sanctions Legal Advisers into account, our Directors are of the view that our measures provide a reasonably adequate and effective internal control framework to assist us in identifying and monitoring any material risk relating to sanctions laws so as to protect the interests of our Shareholders and us. Having considered the advice of our International Sanctions Legal Advisers, and subject to the full implementation and enforcement of such measures, the Sole Sponsor is of the view that these measures will provide a reasonably adequate and effective internal control framework to assist our Company in identifying and monitoring any material risk relating to sanction laws.

LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any actual or pending legal, arbitration, administrative proceedings (including any bankruptcy or receivership proceedings) that we believe would have a material adverse impact on our business, results of operations, financial condition or reputation. We have put in place internal control system and procedures to ensure our continuous regulatory compliance. However, we may from time to time become a party to legal, arbitration, administrative proceedings arising in the ordinary course of our business.

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INTERNAL CONTROL AND RISK MANAGEMENT

The primary risks we face are operational risks, credit risks and market risks (including interest rate risk and foreign exchange risk).

Operational risks

We set out below our major operational risks:

Cooperation with third-party distributors

We sell and distribute many of our OBM products through third-party distributors. However, the effectiveness of our distributors in selling and distributing our OBM products may be affected by a number of factors, including the following factors:

1. how our distributors maintain relationships with their sub-distributors and other wholesalers and retailers;
2. our distributors' strategies in promoting our OBM products; and
3. our distributors' own financial performance.

We have established internal control procedures for mitigating this operational risk. Please refer to the sections headed "Business — Our customers — Our OBM customers — (1) Distributors — (i) Contractual distributors — Management of contractual distributors" and "Our customers — Our OBM customers — (1) Distributors — (ii) Non-contractual distributors — Management of non-contractual distributors" in this listing document for more details on our distributor management.

Independence of our distributors

Certain employees of our Group were identified to have served as distributors of our OBM products during the Track Record Period. Please refer to the section headed "Business — Our customers — Our OBM customers — (1) Distributors — Independence of distributors" in this listing document for more details. To mitigate the risk of any potential conflict of interests that may arise in such connection, we have established the following additional internal control measures to ensure the independence of our distributors:

1. we will request each newly recruited employee to sign a form of declaration of interests confirming that he/she does not and will not have any vested interests in, or any other interests associated with, our Group; and

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2. our sales department will, on an annual basis, compile a list of our distributors (both contractual and non-contractual) based on our internal sales records of the relevant financial year, and provide the same to our human resources and administrative department, which in turn will conduct background searches on our distributors (both contractual and non-contractual) on a sampling basis to ascertain their identities (for sampled distributors being an entity, to ascertain the identities of its beneficial owner(s), director(s) and legal representative(s)). We will then compare such findings with our staff list to ensure that, during the relevant financial year, our employees have not, either in his/her personal capacity or through entities controlled by him/her, engaged in any business collaboration with our Group. Written records of the same will be retained for documentation purpose.

Potential product liability claims

We face an inherent risk of exposure to product liability claims in the event that the use of our products results in health or safety issues or damages. The end-consumers of our products may have the right to bring an action under tort and we may also be subject to tortious liabilities for any damages caused by defects of our products.

We have established internal procedures to ensure the quality of our services and our compliance with the relevant laws and regulations. Please refer to the section headed “Business — Quality assurance” in this listing document for more details on our quality control measures for the mitigation of the risk identified above.

Compliance with health, safety and environmental laws

Our operations are subject to the PRC’s health, safety and environmental laws, rules and regulations. Any violation of the applicable health, safety and environmental laws, rules or regulations may result in orders of corrections, fines, shutdown of production and obligation to take corrective measures or even criminal sanction.

We have a safety team which is responsible for establishing occupational health and production safety procedures. We also have an established procedure for the management and disposal of wastes and hazardous materials.

Credit risks

We trade only with recognised and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant.

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Market risks

Interest rate risk

Our exposure to the risk of changes in market interest rates relates primarily to our long term debt obligations with floating interest rates. We review interest rate risk regularly and monitor closely the fluctuation of interest rates and will make proper adjustments if necessary.

Foreign exchange risk

RMB is the functional currency used by our principal subsidiaries in the PRC for recording transaction. Export sales during the Track Record Period were mainly recorded in USD. We used derivative financial instruments such as forward contracts to hedge our foreign currency exposure in 2015. We did not enter into any hedging contracts for the three years ended 31 December 2018. We monitor the daily movement of RMB against USD.