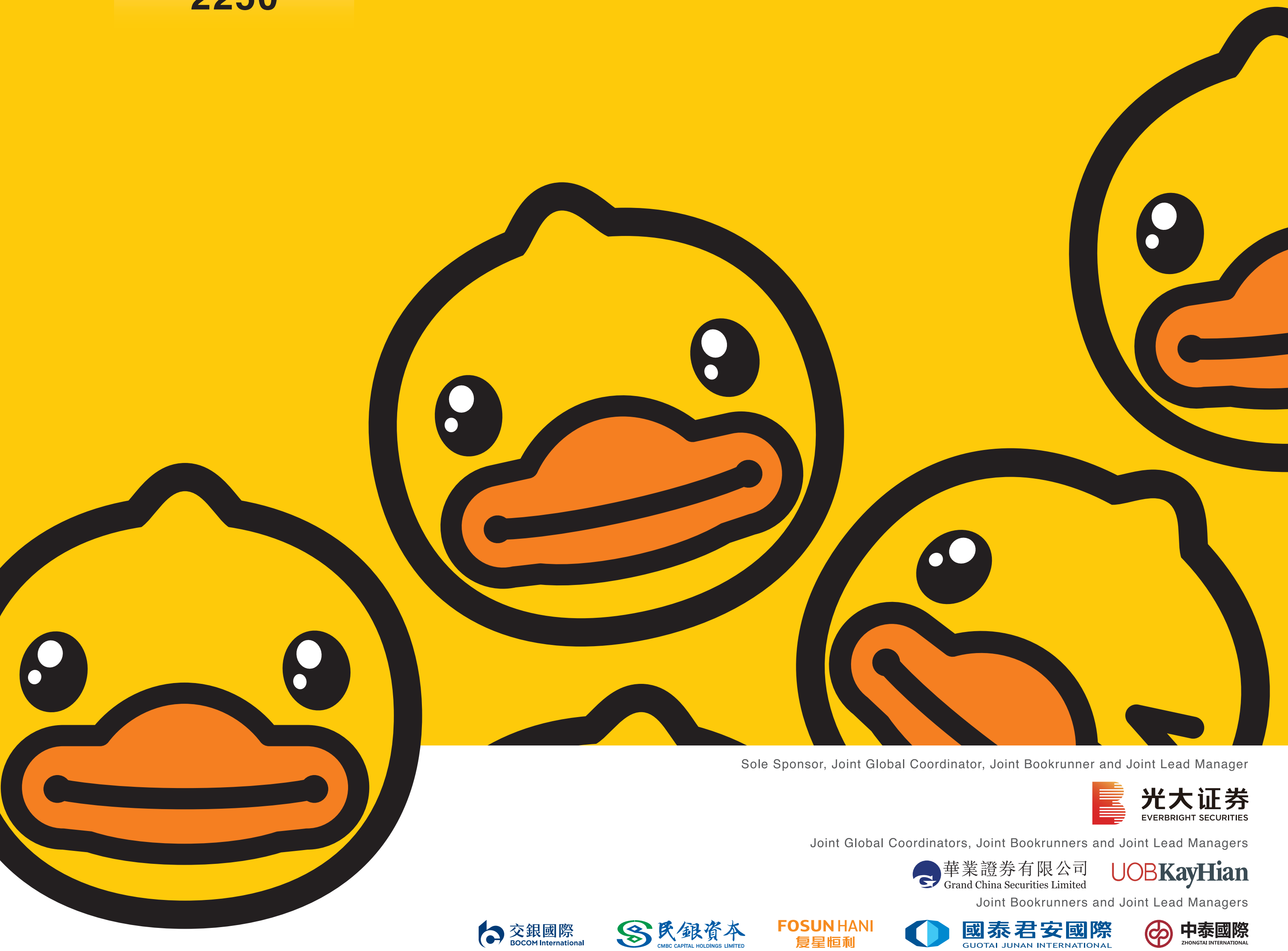
SEMK HOLDINGS INTERNATIONAL LIMITED

SEMK HOLDINGS INTERNATIONAL LIMITED
德盈控股國際有限公司
(Incorporated in the Cayman Islands with limited liability)

STOCK CODE
2250

GLOBAL OFFERING



Sole Sponsor, Joint Global Coordinator, Joint Bookrunner and Joint Lead Manager

光大证券 EVERBRIGHT SECURITIES

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

華業證券有限公司 Grand China Securities Limited

UOBKayHian

Joint Bookrunners and Joint Lead Managers

交銀國際 BOCOM International

民銀資本 CMBC CAPITAL HOLDINGS LIMITED

FOSUN HANI 复星恒利

國泰君安國際 GUOTAI JUNAN INTERNATIONAL

中泰國際 ZHONGTAI INTERNATIONAL

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

Semk

德盈控股國際有限公司
Semk Holdings International Limited

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	**:**	**120,000,000 Shares (subject to the Over-allotment Option)**
Number of Hong Kong Offer Shares	**:**	**12,000,000 Shares (subject to reallocation)**
Number of International Offer Shares	**:**	**108,000,000 Shares (subject to the Over-allotment Option and reallocation)**
Offer Price	**:**	**Not more than HK$3.45 per Offer Share and expected to be not less than HK$2.05 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005% and Financial Reporting Council transaction levy of 0.00015% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	**:**	**US$0.000025 per Share**
Stock code	**:**	**2250**

Sole Sponsor, Joint Global Coordinator, Joint Bookrunner and Joint Lead Manager

光大证券 EVERBRIGHT SECURITIES

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

華業證券有限公司 Grand China Securities Limited

UOBKayHian

Joint Bookrunners and Joint Lead Managers

交銀國際 BOCOM International

民銀資本 CMBC CAPITAL HOLDINGS LIMITED

FOSUN HANI 復星恒利

國泰君安國際 GUOTAI JUNAN INTERNATIONAL

中泰國際 ZHONGTAI INTERNATIONAL

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

The Offer Price is expected to be determined by agreement between the Sole Representative (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Friday, 7 January 2022 (or such later date as may be agreed between the Sole Representative (for itself and on behalf of the Underwriters) and our Company). The Offer Price will not be more than HK$3.45 per Offer Share and is currently expected to be not less than HK$2.05 per Offer Share unless otherwise announced. Applicants applying for the Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK$3.45 per Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005% and Financial Reporting Council transaction levy of 0.00015%, subject to refund if the Offer Price as finally determined is lower than HK$3.45 per Offer Share. If, for any reason, our Company and the Sole Representative (for itself and on behalf of the Underwriters) are unable to reach an agreement on the Offer Price by Thursday, 13 January 2022, the Global Offering will not become unconditional and will not proceed.

The Sole Representative (for itself and on behalf of the Underwriters) may, with our Company's consent, reduce the number of Offer Shares offered under the Global Offering and/or reduce the indicative Offer Price range below that stated in this Prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of such reduction will be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.semk.net. Further details are set out in "Structure of the Global Offering" in this Prospectus.

Prospective investors should read the entire document carefully and, in particular, should consider the matters discussed in "Risk Factors" in this Prospectus.

Pursuant to the termination provisions contained in the Hong Kong Underwriting Agreement, the Sole Representative (for itself and on behalf of the Hong Kong Underwriters) has the right in certain circumstances to terminate the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (such date is currently expected to be Monday, 17 January 2022). Further details of these termination provisions are set out in "Underwriting" in this Prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or outside the United States in offshore transactions in accordance with Regulation S under the Securities Act.

30 December 2021

Your application must be for a minimum of 1,000 Hong Kong Offer Shares and in one of the numbers set out in the table below. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application
	HK$		*HK$*		*HK$*		*HK$*
1,000	3,484.77	15,000	52,271.57	250,000	871,192.71	4,000,000	13,939,083.30
2,000	6,969.55	20,000	69,695.41	300,000	1,045,431.25	5,000,000	17,423,854.13
3,000	10,454.32	25,000	87,119.27	400,000	1,393,908.33	6,000,000[(1)]	20,908,624.95
4,000	13,939.08	30,000	104,543.13	500,000	1,742,385.42		
5,000	17,423.86	40,000	139,390.84	750,000	2,613,578.12		
6,000	20,908.63	50,000	174,238.55	1,000,000	3,484,770.83		
7,000	24,393.40	75,000	261,357.82	1,500,000	5,227,156.24		
8,000	27,878.17	100,000	348,477.09	2,000,000	6,969,541.65		
9,000	31,362.94	150,000	522,715.63	2,500,000	8,711,927.07		
10,000	34,847.71	200,000	696,954.17	3,000,000	10,454,312.48		

Note:

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

If there is any change in the following expected timetable of the Global Offering, we will issue an announcement in Hong Kong to be published on the Stock Exchange's website at ***www.hkexnews.hk*** *and our Company's website at* ***www.semk.net****.*

	Time and date(Note 1)
Hong Kong Public Offering commences	9:00 a.m. on Thursday, 30 December 2021
Latest time for completing electronic applications under **eWhite Form** service through the designated website **www.ewhiteform.com.hk**(Note 2)	11:30 a.m. on Friday, 7 January 2022
Application lists open(Note 3)	11:45 a.m. on Friday, 7 January 2022
Latest time for (a) completing payment for **eWhite Form** applications by effecting PPS payment transfer(s) and (b) giving **electronic application instructions** to HKSCC(Note 4)	12:00 noon on Friday, 7 January 2022

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Application lists close(Note 3)	12:00 noon on Friday, 7 January 2022
Expected Price Determination Date(Note 5)	Friday, 7 January 2022
Announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares at the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.semk.net** on or before	Friday, 14 January 2022
The results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including:	
• in the announcement to be posted at the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.semk.net**	Friday, 14 January 2022

Time and date(Note 1)

- from the designated results of allocations website at **www.ewhiteform.com.hk/results** with a "search by ID" function from . . . . 9:00 a.m. on Friday, 14 January 2022 to 12:00 midnight on Thursday, 20 January 2022

- from the allocation results telephone enquiry by calling +852 2153 1688 between 9:00 a.m. and 6:00 p.m. . . . . . . Friday, 14 January 2022 to Thursday, 20 January 2022 (excluding Saturday, Sunday and public holiday in Hong Kong)

Share certificates in respect of wholly or partially successful applications to be despatched or deposited into CCASS on or before(Note 7)(Note 9) . . . . Friday, 14 January 2022

e-Refund payment instructions/refund cheques in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications to be despatched on or before(Note 8)(Note 9) . . . . Friday, 14 January 2022

Dealings in the Shares on the Stock Exchange to commence at 9:00 a.m. on . . . . Monday, 17 January 2022

The application for the Hong Kong Offer Shares will commence on Thursday, 30 December 2021 through Friday, 7 January 2022. Such time period is longer than the normal market practice of four days. The application monies (including brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy) will be held by the receiving banks on behalf of the Company and the refund monies, if any, will be returned to the applicant(s) without interest on Friday, 14 January 2022. Investors should be aware that the dealings in Shares on the Stock Exchange are expected to commence on Monday, 17 January 2022.

Notes:

1. All dates and times refer to Hong Kong local dates and time, except as otherwise stated.

2. You will not be permitted to submit your application through the designated website at **www.ewhiteform.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

3. If there is/are a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 7 January 2022, the application lists will not open or close on that day. See "How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists".

4. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS or instructing your **broker** or **custodian** to apply on your behalf via CCASS should refer to "How to Apply for Hong Kong Offer Shares — 6. Applying By Giving Electronic Application Instructions To HKSCC Via CCASS".

5. The Price Determination Date is expected to be on or around Friday, 7 January 2022 and, in any event, not later than Thursday, 13 January 2022. If, for any reason, we do not agree with the Sole Representative (for itself and on behalf of the Underwriters) on the pricing of the Offer Shares by Thursday, 13 January 2022, the Global Offering will not proceed and will lapse.

6. None of the websites set out in this section or any of the information contained on the websites forms part of this document.

7. Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in "Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Grounds for Termination" has not been exercised. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of Share certificates or the Share certificates becoming valid do so entirely at their own risk.

8. e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.

9. Applicants who have applied on **eWhite Form** for 1,000,000 or more Hong Kong Offer Shares may collect any refund cheques (where applicable) and/or Share certificates in person from our Hong Kong Branch Share Registrar, Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, 14 January 2022 or such other date as notified by us as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection may not authorise any other person to collect on their behalf. Individuals must produce evidence of identity acceptable to our Hong Kong Branch Share Registrar at the time of collection.

   Applicants who have applied for Hong Kong Offer Shares through CCASS should refer to "How to Apply for the Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies — (ii) If you apply through CCASS EIPO service" in this Prospectus for details.

   Applicants who have applied through the **eWhite Form** service and paid their applications monies through single bank accounts may have refund monies (if any) despatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **eWhite Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

   Share certificates and/or refund cheques for applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

   Further information is set out in "How to Apply for the Hong Kong Offer Shares — 13. Refund of Application Monies" and "How to Apply for the Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies" in this Prospectus.

The above expected timetable is a summary only. For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, please refer to "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this Prospectus, respectively.

IMPORTANT NOTICE TO INVESTORS

This Prospectus is issued by our Company solely in connection with the Global Offering and the Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this Prospectus pursuant to the Global Offering. This Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this Prospectus in any jurisdiction other than Hong Kong. The distribution of this Prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions, and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this Prospectus to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers or any of the the Underwriter(s), any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Global Offering.

PAGE

CONTENTS

This summary aims to give you an overview of the information contained in this Prospectus. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this Prospectus. You should read the entire document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in "Risk Factors" in this Prospectus. You should read that section carefully before you decide to invest in the Offer Share.

Various expressions used in this section are defined in "Definitions" and "Glossary of Technical Terms" in this Prospectus.

OVERVIEW

We are the second largest domestic character IP company and ranked fifth among all character IP companies in China, in terms of character licensing revenue in 2020, and with a market share of around 2.4% according to the Frost & Sullivan Report. In terms of sales value in the character IP product e-commerce market in China, we had a market share of around 0.6% in 2020. IPs and our brand are at the heart of our business. The origin of our business can be traced back to 2005 when B.Duck, our iconic IP character which we believe to be evergreen, was created by Mr. Hui, our founder, chairman, chief executive officer and executive Director. B.Duck has received a number of awards, including the "Asian Property of the Year" for 2016, 2018, 2019 and 2020 and the "China Property of the Year" for 2021 by Licensing International and the "Hong Kong Premier Brand" in 2016 by The Chinese Manufacturers Association of Hong Kong and Hong Kong Brand Development Council. Since B.Duck gained in popularity in the HK–China Market, we have created 25 other characters, being family members and friends of B.Duck, including but not limited to Buffy, B.Duck Baby, Dong Duck and Bath'N Duck. Our B.Duck Family Characters are designed under the motto of "Be Playful" to appeal to a wide range of consumers across different geographies and demographics.

OUR BUSINESS

We are principally engaged in (i) the character licensing business: the creation, design, licensing, brand management and marketing of our self-created B.Duck Family Characters across multi-channels. We license our B.Duck Family Characters and brands to our licensees, provide them with product design application services and allow them to use the same in their products and services offering; and (ii) the e-commerce and other business: the design, development, procurement and retail sales of our B.Duck Family Characters-featured products through multi-channels.

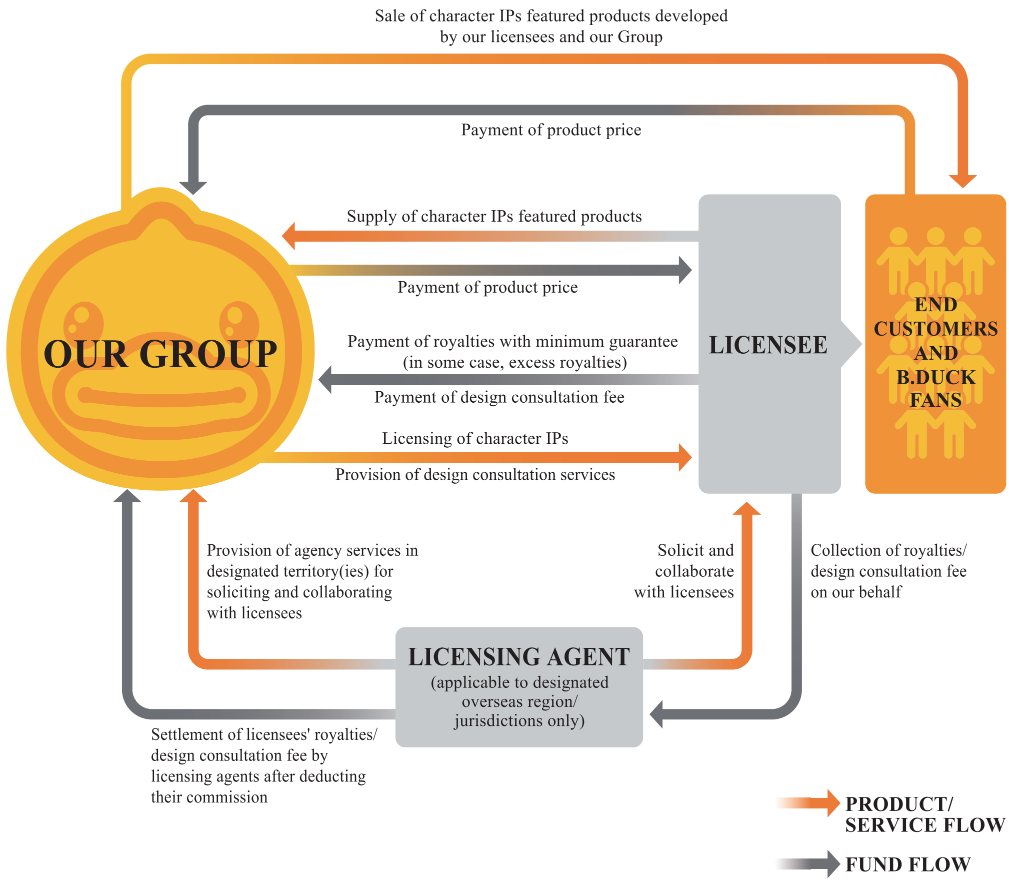
Our Character Licensing Business

Our character licensing business can be broadly divided into five service types, namely (i) merchandise licensing; (ii) LBE licensing; (iii) content and media licensing; (iv) promotion licensing; and (v) design consultation, which are interrelated and complementary to each other, with each of them being provided on a single, multi-service or integrated basis.

Our E-commerce and other Business

Our e-commerce and other business mainly involves the sale of B.Duck Family Characters-featured products on e-commerce platforms of third parties and through offline sales channels. Seeing the potential synergies to be generated from our character licensing business, we began to explore the possibility of designing and selling our own products on e-commerce platforms. In 2015, we launched our first online flagship store on Tmall, a well-known business to customer online shopping platform in China. Following our success in the opening of such flagship store, we subsequently expanded onto other e-commerce platforms, such as JD.com, VIP.com and HKTVmall, to offer our products and allow customers to pay online with our products directly shipped to the customers.

The following diagram illustrates our business model during the Track Record Period and as at the Latest Practicable Date:



The following table set forth a breakdown of our revenue by business segments during the Track Record Period:

	FY2018		FY2019		FY2020		6M2020		6M2021	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (*unaudited*)	*%*	*HK$'000*	*%*
Character licensing business	63,827	*31.8*	81,630	*33.6*	98,039	*42.0*	31,283	*33.7*	58,972	*47.6*
E-commerce and other business	137,037	*68.2*	161,416	*66.4*	135,476	*58.0*	61,593	*66.3*	64,801	*52.4*
Total	200,864	*100.0*	243,046	*100.0*	233,515	*100.0*	92,876	*100.0*	123,773	*100.0*

Revenue by business segment

Our revenue from character licensing business increased by approximately HK$17.8 million or approximately 27.9% from approximately HK$63.8 million for FY2018 to approximately HK$81.6 million for FY2019. Such increase was mainly attributable to the increase in excess royalties charged from our licencees as a result of their increased sales of goods or services featuring our IP characters. It then further increased by approximately HK$16.4 million or approximately 20.1% to approximately HK$98.0 million for FY2020, which was likewise primarily attributable to the increased excess royalties charged from our licensees. Our revenue from character licensing business increased by approximately HK$27.7 million or approximately 88.5% from approximately HK$31.3 million for 6M2020 to approximately HK$59.0 million for 6M2021, which was primarily attributable to (a) an increase in the minimum guarantee and design consultation service fee recognised by our Group, in part due to the increase in the number of revenue generating contracts from 189 for 6M2020 to 203 for 6M2021; and (b) the increased excess royalties charged from our licensees.

The following table sets forth the movement of our licensees (exclusive of licensing agents) we had established business relationship with for the relevant periods in FY2018, FY2019, FY2020 and FY2021, as at 30 June 2021 and as at the Latest Practicable Date:

As at the beginning of FY2018	As at the end of FY2018/beginning of FY2019	As at the end of FY2019/beginning of FY2020	As at the end of FY2020/beginning of FY2021	As at 30 June 2021	As at the Latest Practicable Date
125	184	264	315	346	366

Our revenue from e-commerce and other business increased by approximately HK$24.4 million or approximately 17.8% from approximately HK$137.0 million for FY2018 to approximately HK$161.4 million for FY2019. Such increase was primarily attributable to the increase in sales through e-commerce platforms, partly as a result of our devotion of more resources on JD.com and VIP.com. It then decreased by approximately HK$25.9 million or approximately 16.1% to approximately HK$135.5 million for FY2020. Such decrease was primarily attributable to the outbreak of COVID-19, as well as the downsizing of our offline sales operations. Our revenue from e-commerce and other business increased by approximately HK$3.2 million or approximately 5.2% from approximately HK$61.6 million for 6M2020 to approximately HK$64.8 million for 6M2021, which was primarily attributable to (i) our increase in online sales on certain e-commerce platforms including a live-streaming platform, Douyin, which we only commenced sales during 6M2021; and (ii) increase in offline sales to a corporate customer in Hong Kong.

OUR IP CHARACTERS

Our B.Duck Family Characters are targeted at consumers aged between 15 and 34 years old who are brand conscious and possess qualities such as trendiness, high purchasing power, tech-savviness and affinity with social media primarily located in Asia.

The following table sets forth a breakdown of our revenue by IP character under our character licensing business during the Track Record Period:

	FY2018		FY2019		FY2020		6M2020		6M2021	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Our self-created IP characters										
B.Duck	53,892	*84.4*	61,555	*75.4*	75,035	*76.5*	26,722	*85.4*	43,423	*73.6*
Buffy	6,082	*9.5*	8,625	*10.6*	7,831	*8.0*	1,152	*3.7*	3,251	*5.5*
B.Duck Baby	3,351	*5.3*	7,816	*9.6*	13,451	*13.7*	2,428	*7.8*	10,469	*17.7*
Bath'N Duck	–	–	2,319	*2.8*	725	*0.7*	357	*1.1*	387	*0.7*
Dong Duck	–	–	379	*0.5*	136	*0.1*	79	*0.3*	1,155	*2.0*
Licensed Characters	502	*0.8*	936	*1.1*	861	*1.0*	545	*1.7*	287	*0.5*
	63,827	*100.0*	81,630	*100.0*	98,039	*100.0*	31,283	*100.0*	58,972	*100.0*

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and differentiate us from our competitors:

(i) well established brand name with a vast library of self-created characters;

(ii) the second largest domestic character IP company and ranked fifth among all character IP companies in China with a proven track record;

(iii) robust in-house character and design capabilities;

(iv) extensive licensing network with a core focus on Asia and sophisticated licensing operation;

(v) well established online sales channels; and

(vi) dedicated and seasoned management team.

See "Business — Our Competitive Strengths" in this Prospectus for further details.

OUR STRATEGIES

With the aim of further developing our business, continuing our growth and capturing the evolving industry dynamics in view of emerging marking opportunities, we intend to pursue the following key strategies:

(i) enhancing our brand image and awareness of our IP characters, by (a) establishing our flagship store in Shanghai; (b) collaborating with other renowned brands and IPs; and (c) establishing representative offices for overseas markets;

(ii) establishing our "Fans Platform";

(iii) strengthening our new economy online sales channels;

(iv) further enhancing our in-house design capability; and

(v) broadening our character portfolio and rolling out new characters.

See "Business — Our Strategies" in this Prospectus for further details.

OUR CUSTOMERS AND SUPPLIERS

Our customers primarily consist of (i) our licensees; (ii) our fans; and (iii) our wholesale customers. During the Track Record Period, we had an extensive licensing network of more than 300 licensees and seven licensing agents that covered a diverse range of consumer sectors and gained a widespread reach to consumers across different regions, with a core focus in Asia, including the PRC, Hong Kong and SEA.

During the Track Record Period, the aggregate revenue attributable to our five largest customers were approximately HK$28.8 million, HK$60.1 million, HK$65.3 million and HK$34.8 million, which accounted for approximately 14.3%, 24.8%, 28.1% and 28.1% of our total revenue, respectively. For the same periods, our largest customer in each year during the Track Record Period contributed approximately HK$7.1 million, HK$22.5 million, HK$28.4 million and HK$14.2 million, which accounted for approximately 3.5%, 9.3%, 12.2% and 11.4% of our total revenue, respectively. Up to the Latest Practicable Date, we had established business relationship ranging from one to 13 years with our five largest customers. See "Business — Our Customers" in this Prospectus for further details.

Our suppliers primarily consist of (i) OEM suppliers which mainly manufacture apparel and bags; and (ii) licensees of our merchandise licensing service. We mainly procure apparel and bags from various OEM suppliers located in the PRC. We have maintained stable and close relationship with our suppliers. To a lesser extent, we also procure finished products from the licensees of our merchandise licensing service and sell the same through our sales network.

During the Track Record Period, the aggregate purchase cost attributable to our five largest suppliers were approximately HK$53.1 million, HK$61.0 million, HK$39.6 million and HK$30.1 million, which accounted for 97.8%, 79.6%, 73.9% and 75.5% of our total purchase cost, respectively. For the same periods, the purchase amounts from our largest supplier were approximately HK$50.8 million, HK$51.0 million, HK$26.4 million and HK$20.6 million, which accounted for 93.4%, 66.5%, 49.3% and 51.6% of our total purchase cost, respectively. Up to the Latest Practicable Date, we had established business relationship ranging from one to 12 years with our five largest suppliers. See "Business — Our Suppliers" in this Prospectus for further details.

HIGHLIGHT OF RISK FACTORS

There are certain risks involved in our operations, many of them are beyond our control. Risk factors that may materially and adversely affect our business, financial conditions and results of operations include:

(i) substantially all our revenue is generated from our B.Duck Family Characters and any significant adverse impacts on our B.Duck Family Characters and our other character IP rights could materially affect our business;

(ii) we may not be able to identify and respond to the changes in trends and consumer preferences in a timely manner;

(iii) we derived substantially all our revenue in the China market during the Track Record Period;

(iv) infringement or misappropriation claims by any third parties against us or unauthorised use of our character IP rights may adversely affect our business and reputation; and

(v) our business relies on our ability to maintain our existing relationships with licensees and our ability to attract new licensees to utilise our IP rights.

See "Risk Factors" in this Prospectus for a comprehensive discussion of these risks.

SUMMARY OF CONSOLIDATED FINANCIAL INFORMATION

The following tables summarises the financial information of our Group during the Track Record Period, details of which are set out in the Accountant's Report in Appendix I to this Prospectus.

Consolidated Statements of Comprehensive Income

	FY2018	FY2019	FY2020	6M2020	6M2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Revenue	200,864	243,046	233,515	92,876	123,773
Other income	3,037	6,147	8,739	3,582	4,567
Other (losses)/gains, net	(1,195)	(437)	3,145	(677)	361
Cost of inventories sold	(69,374)	(75,147)	(54,910)	(25,195)	(27,668)
Employee benefit expenses	(42,859)	(51,192)	(42,340)	(19,900)	(29,860)
Promotion costs	(18,049)	(20,676)	(15,874)	(6,870)	(8,139)
Listing expenses	(4,112)	(8,754)	(5,288)	–	(8,145)
Online platform usage fee	(16,219)	(16,957)	(14,356)	(6,724)	(6,722)
Depreciation and amortisation	(7,790)	(8,606)	(10,069)	(5,009)	(4,698)
(Impairment losses)/reversal of impairment losses on financial assets and contract assets	(1,121)	(2,216)	(3,234)	(1,649)	1,929
Other expenses	(24,277)	(27,422)	(25,294)	(11,157)	(17,997)
Operating profit	18,905	37,786	74,034	19,277	27,401
Finance income	53	60	43	19	10
Finance costs	(1,108)	(1,706)	(2,149)	(1,168)	(803)
Finance costs, net	(1,055)	(1,646)	(2,106)	(1,149)	(793)
Profit before income tax	17,850	36,140	71,928	18,128	26,608
Income tax expense	(7,988)	(12,038)	(17,380)	(3,903)	(9,147)
Profit for the year attributable to owners of the Company	9,862	24,102	54,548	14,225	17,461
Other comprehensive income:					
Item that may be reclassified to profit or loss:					
– Currency translation differences	242	(507)	2,050	(25)	1,414
	242	(507)	2,050	(25)	1,414
Total comprehensive income for the year attributable to the owners of the Company	10,104	23,595	56,598	14,200	18,875
Earnings per share	9.86	24.10	54.55	14.23	17.46

Non-HKFRS financial measures

As listing expenses are non-recurring in nature and not related to the performance of our operation, our Directors consider that the presentation of our Group's adjusted net profit under non-HKFRS financial measures by eliminating the impact of listing expenses can better reflect our operational performance during the Track Record Period. Furthermore, our management also uses the non-HKFRS financial measures to assess our operating performance and formulate business plans. We believe that the non-HKFRS financial measures provide useful information to the investors about our core business operations, which they can use to evaluate our operating results and understand our consolidated results of operations in the same manner as our management. The following table sets forth a reconciliation of our Group's adjusted net profit under non-HKFRS financial measures for the periods indicated to that prepared in accordance with HKFRS measures:

	FY2018	**FY2019**	**FY2020**	**6M2020**	**6M2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Profit for the year attributable to owners of the Company	9,862	24,102	54,548	14,225	17,461
Add:					
Listing expenses	4,112	8,754	5,288	–	8,145
Adjusted net profit under non-HKFRS financial measures	13,974	32,856	59,836	14,225	25,606

Having said the above, the presentation of the non-HKFRS financial measures is not intended to be considered in isolation or as substitute for the financial information prepared and presented in accordance with HKFRS. The non-HKFRS financial measures have limitations as analytical tools and our non-HKFRS financial measures may differ from the non-HKFRS financial measures used by other companies, and therefore the comparability of such information may be limited. We encourage investors to review our financial information in its entirety.

Our revenue amounted to approximately HK$200.9 million, HK243.0 million, HK$233.5 million, HK$92.9 million and HK$123.8 million for FY2018 to FY2020, 6M2020 and 6M2021, respectively.

The profit attributable to owners of our Company increased from approximately HK$9.9 million for FY2018 to approximately HK$24.1 million for FY2019, and further increased to approximately HK$54.5 million for FY2020. The increase in the profit attributable to owners of our Company for FY2019 compared with FY2018 was mainly due to the combined effect of (i) the growth of our Group's overall revenue by approximately HK$42.2 million; and (ii) the increase in segment gross profit margin of our e-commerce and other business from approximately 49.4% in FY2018 to approximately 53.4% in FY2019 due to, among others, a decrease in average procurement cost per unit for apparel which in part contributed to the higher gross profit margin of apparel, together with an increase in the sales of apparel in FY2019, as well as the write-back of impairment of inventories recorded for FY2019 as compared to a provision of impairment of inventories recorded for FY2018. The said increase in segment gross profit margin and the corresponding increase in gross profit contributed to the turnaround of the segment results of our e-commerce and other business from a loss position for FY2018 to a positive segment results for FY2019. On the other hand, the increase in profit attributable to owners of our Company for FY2020 as compared with FY2019 was primarily due to (i) the growth of revenue of our character licensing business, mainly attributable to the increased excess royalties charged from our licensees; and (ii) the increase in the gross profit margin of our e-commerce and other business from approximately 53.4% for FY2019 to approximately 59.5% for FY2020, attributable to, among others, the fact that our sales during FY2020 focused on apparel which had higher gross profit margin as compared to other products, as well as the higher write-back of impairment of inventories recorded for FY2020 as compared to FY2019. As compared to 6M2020, the profit attributable to owners of our Company increased by approximately

HK$3.2 million or 22.7% to approximately HK$17.5 million for 6M2021, which was primarily due to the increase in revenue of our character licensing business, mainly attributable to (i) an increase in the minimum guarantee and design consultation service fee recognised by our Group, in part due to the increase in the number of revenue generating contracts from 189 for 6M2020 to 203 for 6M2021; and (ii) the increased excess royalties charged from our licensees.

During the Track Record Period, the major components of our cost structure were cost of inventories sold (comprising primarily cost of inventories for our e-commerce and other business) and employee benefit expenses. For FY2018 to FY2020, 6M2020 and 6M2021, our cost of inventories sold amounted to approximately HK$69.4 million, HK$75.1 million, HK$54.9 million, HK$25.2 million and HK$27.7 million, respectively, and our employee benefit expenses amounted to approximately HK$42.9 million, HK$51.2 million, HK$42.3 million, HK$19.9 million and HK$29.9 million, respectively. For further details, please see "Financial Information — Key Factors Affecting Our Results of Operations and Financial Condition — Cost of inventories sold and employee benefit expenses" in this Prospectus.

Selected Items of Consolidated Statements of Financial Position

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	24,537	27,080	18,758	20,280
Property, plant and equipment	6,083	6,671	4,940	4,119
Right-of-use assets	10,609	11,138	5,401	6,067
Current assets	94,626	112,418	170,140	152,617
Inventories	21,768	22,840	21,448	33,755
Cash and cash equivalents	39,090	35,341	64,772	38,293
Total assets	119,163	139,498	188,898	172,897
Non-current liabilities	7,108	5,336	515	2,358
Lease liabilities	6,687	4,976	–	1,790
Current liabilities	74,103	87,615	100,238	90,969
Contract liabilities	8,211	9,486	18,177	15,910
Accruals and other payables	14,368	15,829	17,034	16,503
Borrowings	17,355	40,191	46,803	42,630
Net current assets	20,523	24,803	69,902	61,648
Total liabilities	81,211	92,951	100,753	93,327
Total equity	37,952	46,547	88,145	79,570
Total equity and liabilities	119,163	139,498	188,898	172,897
Net assets	37,952	46,547	88,145	79,570

Our net assets increased from approximately HK$38.0 million as at 31 December 2018 to approximately HK$46.5 million as at 31 December 2019, primarily attributable to our net profit of approximately HK$24.1 million recorded for FY2019, partially offset by the declaration of dividends of approximately HK$15.0 million by Semk International for FY2019. Our net assets further increased to approximately HK$88.1 million as at 31 December 2020, primarily attributable to our net profit of approximately HK$54.5 million recorded for FY2020, partially offset by the declaration of dividends of approximately HK$15.0 million by Semk International for FY2020. As at 30 June 2021, our net assets decreased to approximately HK$79.6 million, which was primarily attributable to the declaration of dividends of approximately HK$24.1 million and HK$3.4 million to Semk Cayman and ENS International, respectively, for settlement of their considerations payable for their respective purchase of shares from OJ VC pursuant to the Reorganisation, partially offset by our net profit of approximately HK$17.5 million recorded for 6M2021.

Selected Items of Consolidated Statements of Cash Flows

	As at 31 December			As at 30 June	
	2018	2019	2020	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash and cash equivalents at beginning of the year/period	32,949	34,838	25,770	25,770	60,836
Operating profit before changes in working capital	29,221	47,929	85,284	24,724	30,953
Changes in working capital	(3,122)	(17,070)	(19,239)	(8,981)	(4,158)
Income tax paid	(8,540)	(10,030)	(13,617)	(6,068)	(11,886)
Net cash generated from operating activities	17,559	20,829	52,428	9,675	14,910
Net cash generated from/(used in) investing activities	1,901	(25,206)	(17,626)	(12,362)	(5,355)
Net cash (used in) financing activities	(19,028)	(5,258)	(1,034)	12,153	(35,367)
Net increase/(decrease) in cash and cash equivalents	432	(9,635)	33,768	9,466	(25,812)
Effect of foreign exchange rate changes on cash and cash equivalents	1,457	567	1,298	2	256
Cash and cash equivalents at the end of the year/period	34,838	25,770	60,836	35,238	35,280

Key Financial Ratios

	As at 31 December/ FY2018	As at 31 December/ FY2019	As at 31 December/ FY2020	As at 30 June 2021/ 6M2021
Segment gross profit margin (%)(1)	49.4	53.4	59.5	57.3
Net profit margin (%)(2)	4.9	9.9	23.4	14.1
Return on equity (%)(3)	26.0	51.8	61.9	N/A(10)
Return on total assets (%)(4)	8.3	17.3	28.9	N/A(10)
Current ratio (times)(5)	1.3	1.3	1.7	1.7
Quick ratio (times)(6)	1.0	1.0	1.5	1.3
Gearing ratio (%)(7)	45.7	86.3	53.1	53.6
Net debt to equity ratio (%)(8)	N/A(9)	10.4	N/A(9)	5.5

Notes:

(1) No gross profit margin can be determined for character licensing business segment. Segment gross profit margin for each of the year/period is calculated based on revenue attributable to our e-commerce and other business deducting cost of inventories sold divided by revenue attributable to our e-commerce and other business for the respective year/period and multiplied by 100%.

(2) Net profit margin for each of the year/period is calculated based on net profit divided by revenue for the respective year/period and multiplied by 100%.

(3) Return on equity equals profit for the year divided by total equity of the relevant year and multiplied by 100%.

(4) Return on total assets equals profit for the year divided by total assets of the relevant year and multiplied by 100%.

(5) Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of the respective year/period.

(6) Quick ratio is calculated as total current assets less inventories divided by the total current liabilities as at the end of the respective year/period.

(7) Gearing ratio is calculated based on the total interest-bearing borrowings divided by total equity as at the respective year/period and multiplied by 100%.

(8) Net debt to equity ratio is calculated based on net debts as at the end of the respective year/period divided by total equity as at the end of the respective year/period and multiplied by 100%. Net debt includes all interest-bearing borrowings (if any), net of cash and cash equivalents.

(9) Our Group was at a net cash position as the amount of cash and cash equivalents exceeded the total interest-bearing borrowings of our Group, such that the net debt to equity rate is not applicable.

(10) The figure for 6M2021 is not meaningful as it is not comparable to the annual figure.

Segment gross profit margin

Our segment gross profit margin increased from approximately 49.4% for FY2018 to approximately 53.4% for FY2019, and further increased to 59.5% for FY2020. The increase in segment gross profit margin from FY2018 to FY2019 was attributable to, among others, (i) the decrease in average procurement costs per unit for apparel from approximately HK$82.5 to approximately HK$76.0, as we enjoyed bulk purchase discounts due to the increase in procurement volume in FY2019 to cope with the growth of our e-commerce and other business. In this connection, apparel accounted for approximately 62.0% and 65.1% of our total inventory procurement costs for FY2018 and FY2019, respectively; (ii) the increase in our sales of apparel from approximately HK$92.9 million in FY2018 to approximately HK$114.4 million in FY2019, which corresponded to approximately 67.8% and 70.9% of our revenue under our e-commerce and other business for FY2018 and FY2019, respectively. In this connection, apparel had a higher gross profit margin as compared to other products, in part due to the decrease in average unit procurement costs for apparel in FY2019 as discussed above; and (iii) we recorded write-back of impairment of inventories of approximately HK$0.6 million for FY2019, as opposed to a provision for impairment of inventories of approximately HK$1.5 million for FY2018, which were reflected in our cost of inventories sold for the corresponding periods.

The segment gross profit margin further increased to approximately 59.5% for FY2020, attributable to, among others, (i) the fact that our sales during FY2020 focused on apparel which had a higher gross profit margin of approximately 63.1% as compared to other products. In this connection, apparel accounted for approximately 80.3% of our revenue under our e-commerce and other business, and approximately 74.8% of our total inventory procurement costs for FY2020. As compared to the gross profit margin of approximately 58.8% for FY2019, the higher gross profit margin of apparel for FY2020 was in part due to the decrease in average unit procurement cost of apparel of approximately 8.4% in FY2020, which, as we understood from our suppliers, was mainly due to the general decrease in the costs of raw materials such as cotton and fabrics in the PRC in the range of approximately 9.2% to 23.9% in FY2020 as compared to FY2019 as confirmed by Frost & Sullivan; and (ii) we recorded a higher write-back of impairment of inventories of approximately HK$2.3 million for FY2020, as compared to that of approximately HK$0.6 million for FY2019. Our segment gross profit margin decreased from approximately 59.1% for 6M2020 to approximately 57.3% for 6M2021, primarily attributable to the fact that there was a provision for impairment of inventories of approximately HK$0.8 million for 6M2021, which has been recognised as our cost of inventories sold, as opposed to the write-back of impairment of inventories of approximately HK$1.2 million for 6M2020, such that there was an increase in our cost of inventories sold for 6M2021 as compared to 6M2020.

Net profit margin

Our net profit margin increased from approximately 4.9% for FY2018 to approximately 9.9% for FY2019, and further increased to approximately 23.4% for FY2020. The increase in net profit margin from FY2018 to FY2019 was primarily attributable to (i) the turnaround of the segment results of our e-commerce and other business from a loss position for FY2018 to a positive segment results for FY2019, which was primarily due to (a) the increase in segment revenue by approximately HK$24.4 million or approximately 17.7%, together with (b) an increase in segment gross profit margin from approximately 49.4% in FY2018 to approximately 53.4% in FY2019, attributable to, among others, a decrease in average procurement cost per unit for apparel which in part contributed to the higher gross profit margin of apparel, together with an increase in the sales of apparel in FY2019, as well as the write-back of impairment of inventories recorded for FY2019; and (ii) the growth of the segment results of our character licensing business from FY2018 to FY2019. The increase in net profit margin from FY2019 to FY2020 was primarily attributable to (i) the growth of the segment results of our character licensing business from FY2019 to FY2020 in light of its relatively higher segment profit margin; and (ii) the increase in the gross profit margin of our e-commerce and other business from approximately 53.4% for FY2019 to approximately 59.5% for FY2020, attributable to, among others, the fact that our sales during FY2020 focused on apparel which had a higher gross profit margin as compared to other products, as well as the higher write-back of impairment of inventories recorded for FY2020 as compared to FY2019. There was a decrease in net profit margin for 6M2021 as compared to FY2020, as our profit for the first half of a year is normally less than the second half of the same year due to seasonality factors. For further details, please refer to "Financial Information — Key factors affecting our results of operations and financial condition — seasonality" in this Prospectus.

Return on equity

Our return on equity increased from approximately 26.0% for FY2018 to approximately 51.8% for FY2019, and further increased to approximately 61.9% for FY2020. The increase in our return on equity from FY2018 to FY2019 was primarily attributable to (i) the increase in net profit for FY2019 mainly as a result of the increase in revenue; and (ii) our declaration of dividends of approximately HK$15.0 million, partly offset by the increase in retained earnings from FY2018. The further increase in our return on equity from FY2019 to FY2020 was primarily attributable to (i) the increase in net profit for FY2020; and (ii) our declaration of dividends of approximately HK$15.0 million during the year, partly offset by the increase in retained earnings from FY2019.

Return on total assets

Our return on total assets increased from approximately 8.3% for FY2018 to approximately 17.3% for FY2019, and further increased to approximately 28.9% for FY2020. The increase in return on total assets from FY2018 to FY2019 was primarily due to the increase in net profit for FY2019 mainly as a result of the increase in revenue, which outweighed the increase in total assets primarily due to the increase in trade receivables as a result of increase in excess royalties generated, which remained unsettled as at the end of FY2019. Our return on total assets increased from FY2019 to FY2020 mainly because there was an increase in net profit for FY2020, primarily as a result of (i) the increase in revenue attributable to our character licensing business which generally had a higher segment profit margin than that of our e-commerce and other business; and (ii) the increase in gross profit margin of our e-commerce and other business from approximately 53.4% for FY2019 to approximately 59.5% for FY2020, attributable to, among others, the fact that our sales during FY2020 focused on apparel which had a higher gross profit margin as compared to other products, as well as the higher write-back of impairment of inventories recorded for FY2020 as compared to FY2019, which outweighed the increase in total assets primarily due to the increase in cash and cash equivalent resulting from an increase in revenue from FY2019 to FY2020.

Dividends

In FY2017, Semk International declared dividends of approximately HK$20.0 million, of which approximately HK$10.0 million had been paid in FY2017, and the payment of the remaining balance of approximately HK$10.0 million was effected during FY2018. For FY2019 and FY2020, dividends of approximately HK$15.0 million and HK$15.0 million, respectively, were declared by Semk International for distribution to its then shareholders. In addition, for 6M2021, Semk International and ENS Holdings declared dividends of approximately HK$24.1 million and HK$3.4 million to Semk Cayman and ENS International, respectively. On 13 September 2021, our Company declared dividends in the amount of approximately HK$27.0 million out of our retained earnings, of which approximately HK$20.0 million had been utilised to settle our amounts due from Semk Holdings, whereas the remaining balance of approximately HK$7.0 million (including the balance of amounts due to Semk Holdings of approximately HK$0.4 million as at 31 October 2021) had been fully settled as at the Latest Practicable Date. For further details, please see "Financial Information — Dividends" in this Prospectus.

The recommendation of the payment of dividend is subject to the absolute discretion of our Board, and, after Listing, any declaration of final dividend for the year will be subject to the approval of our Shareholders. Our Directors may recommend a payment of dividend in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as they may deem relevant at such time. Any declaration and payment as well as the amount of the dividend will be subject to our constitutional documents and the Companies Law, including the approval of our Shareholders. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

STATISTICS OF THE GLOBAL OFFERING

	Based on the indicative Offer Price of HK$2.05 per Offer Share	**Based on the indicative Offer Price of HK$3.45 per Offer Share**
Market capitalisation of the Shares expected to be in issue following the completion of the Share Subdivision, the Capitalisation Issue and the Global Offering *(Note 1)*	HK$2,050 million	HK$3,450 million
Unaudited pro forma adjusted consolidated net tangible assets per Share *(Note 2)*	HK$0.31	HK$0.47

Notes:

1. The calculation of the market capitalisation is based on 1,000,000,000 Shares expected to be in issue following the completion of the Share Subdivision, the Capitalisation Issue and the Global Offering.

2. The unaudited pro forma adjusted consolidated net tangible assets per Share has been arrived at after making the adjustments referred to in "Unaudited pro forma financial information" in Appendix II to this Prospectus and on the basis of 964,999,469 Shares were in issue (excluding 35,000,531 Shares, being the 36,270 Shares issued to City Legend International Limited and the corresponding impact of the Share Subdivision and the Capitalisation Issue) assuming that the Global Offering, the Share Subdivision and the Capitalisation Issue have been completed on 30 June 2021 but takes no account of any Shares which may be issued upon the option granted under the Share Option Scheme, any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate to issue Shares and general mandate to repurchase Shares as described in "Share Capital" in this Prospectus. Based on the same set of assumptions but taking into account the dividends in the amount of approximately HK$27.0 million declared by our Company on 13 September 2021, the unaudited pro forma adjusted consolidated net tangible assets per Share would be approximately HK$0.28 and HK$0.44, based on the indicative Offer Price of HK$2.05 per Offer Share and HK$3.45 per Offer Share, respectively.

USE OF PROCEEDS

The net proceeds from the issue of the Offer Shares under the Global Offering based on the Offer Price of HK$2.75 per Share, being the mid-point of the indicative Offer Price range, are estimated to be approximately HK$285.8 million, after deducting the estimated underwriting commission and total expenses in the aggregate amount of approximately HK$44.2 million, paid and payable by our Company from the gross proceeds of the Global Offering and assuming the Over-allotment Option is not exercised. We intend to apply the net proceeds from the issue of the Offer Shares under the Global Offering in the following manner:

- approximately HK$73.8 million or approximately 25.8% of the net proceeds will be used for enhancing our brand image and awareness of our IP characters;
- approximately HK$73.5 million or approximately 25.7% of the net proceeds will be used for establishing our "Fans Platform";
- approximately HK$50.0 million or approximately 17.5% of the net proceeds will be used for strengthening our new economy online sales channel;
- approximately HK$33.7 million or approximately 11.8% of the net proceeds will be used for further enhancing our in-house design capabilities to offer creative and innovative solutions;
- approximately HK$26.3 million or approximately 9.2% of the net proceeds will be used for repaying existing indebtedness to improve the Group's gearing ratio; and
- approximately HK$28.5 million or approximately 10.0% of the net proceeds for general working capital.

SHAREHOLDERS' INFORMATION

Our Controlling Shareholders

Immediately following the completion of the Global Offering, the Share Subdivision and the Capitalisation Issue (but without taking into account Shares which may allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), Semk Global will own approximately 66.32% of the issued share capital in our Company. As at the Latest Practicable Date, Semk Global is wholly-owned by Semk Holdings, which was in turn held as to 100% by Mr. Hui, our founder, chairman, chief executive officer and executive Director. Accordingly, Semk Global, Semk Holdings and Mr. Hui together are a group of Controlling Shareholders of our Company. See "Relationship with our Controlling Shareholders" in this Prospectus for further details.

Our Pre-IPO Investments

Upon the completion of the Reorganisation, the Share Subdivision, the Capitalisation Issue and the Global Offering (but without taking into account Shares which may allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), the Pre-IPO investors which consist of Top Plenty, Sky Planner, Wisdom Thinker, Unite Way and City Legend will hold approximately 21.68% of the enlarged issued share capital of our Company. Immediately after completion of the Global Offering, Sky Planner, Wisdom Thinker, Unite Way and City Legend will hold approximately 13.72% of the enlarged issued share capital of the Company and will be counted as part of the public float for the purposes of Rule 8.24 of the Listing Rules. They are subject to six-month lock-up after the Listing Date. See "History, Corporate Structure and Reorganisation — Investments by the Pre-IPO Investors" in this Prospectus for further details.

LISTING EXPENSES

Assuming an Offer Price of HK$2.75 per Share (being the mid-point of the indicative Offer Price range) and that the Over-allotment Option is not exercised, the total Listing expenses to be borne by us are estimated to be approximately HK$44.2 million, accounting for approximately 13.4% of gross proceeds to be received from the Global Offering, of which HK$22.6 million is directly attributable to the issue of new Shares and to be accounted for as a deduction from the equity and the remaining amount of approximately HK$21.6 million has been or will be reflected in our consolidated statements of comprehensive income. Out of this amount, approximately HK$5.3 million and HK$8.1 million had been charged to our profit and loss account for FY2020 and 6M2021, respectively, and the remaining amount of approximately HK$8.2 million is expected to be recognised in our consolidated statements of comprehensive income for FY2021. The actual amounts to be recognised in the profit and loss of our Group or to be capitalised are subject to adjustment based on audit and changes in variables and assumptions. These Listing expenses mainly comprise professional fees paid and payable to the professional parties for their services rendered in relation to the Listing and the Global Offering which are non-underwriting related expenses, including fees for legal advisers and Reporting Accountant of approximately HK$12.0 million, and other non-underwriting-related fees and expenses of approximately HK$12.4 million, as well as the underwriting commission (including SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy) of approximately HK$19.8 million, payable to the Underwriters in connection with the offering of Offer Shares under the Global Offering.

RECENT DEVELOPMENTS AND MATERIAL ADVERSE CHANGES

Impact of COVID-19

An outbreak of COVID-19 first emerged in late December 2019 and has expanded globally. Our Directors consider that the outbreak of COVID-19 has had the following impacts on our business, results of operation and financial conditions:

– a decrease in the number of licensing contracts awarded during the year by licensees from 136 in FY2019 to 105 in FY2020;

– the early termination of a total of 11 licensing contracts by our licensees during FY2020, which resulted in a loss of outstanding contract sum of approximately HK$3.1 million;

– a decrease in revenue attributable to our e-commerce and other business by approximately HK$25.9 million or approximately 16.1% for FY2020 compared with FY2019; and

– some disruptions of our logistics service providers' operations in the first quarter of FY2020.

For a detailed discussion of the impact of COVID-19 on our operations during the Track Record Period, see "Business — Impact of outbreak of COVID-19 on our business" in this Prospectus.

According to the Frost & Sullivan Report, (i) the licensing market is expected to recover soon after COVID-19 is contained; (ii) the ripple effect of COVID-19 on the licensing market is expected to be limited in the long run; and (iii) the e-commerce market of character IP licensed goods is expected to grow to HK$31.8 billion in 2025. Hence, our Directors believe that such impacts was only temporary and short-term, and did not and will not have any material adverse effect on our Group as a whole.

Having said the above, our Directors are also aware that, since the second half of 2021, there had been a resurgence of COVID-19 in certain part of China. We are uncertain as to whether there will be any further waves of COVID-19 outbreaks. Even though our business operation was not materially affected by COVID-19 at the Latest Practicable Date, we cannot predict whether the resurgence of COVID-19 will deteriorate or whether the outbreak will continue to recur from time to time. For details, see "Risk Factors — Risks Relating to the Business of Our Group — Extraordinary events such as natural disasters, epidemics, contagious disease outbreaks, social unrest and terrorist attacks may significantly delay, or interrupt our Group's business" in this Prospectus.

Business Updates

Subsequent to the Track Record Period and up to the Latest Practicable Date, we have continued to focus on our character licensing and e-commerce and other business and there had not been any material change to our business model, revenue structure and cost structure.

For our character licensing business, subsequent to the Track Record Period and up to the Latest Practicable Date, we entered into 37 new character licensing contracts and the net contract sum of contracts awarded/terminated during such period amounted to approximately HK$23.6 million. During the same period, 29 of our character licensing contracts were expired, and none of our character licensing contracts was early terminated. Further, we had established business relationship with 20 new licensees and our accumulated number of licensees (exclusive of licensing agents) was 366 as at the Latest Practicable Date.

Prospective investors should be aware of the impact of the non-recurring listing expenses on the financial performance of our Group for FY2021, which would be recognised as expenses in our consolidated statements of comprehensive income, and we therefore expect to record a decrease in profit for FY2021. For further details, please see "Summary — Listing Expenses" and "Financial Information — Listing Expenses" in this Prospectus.

During the Track Record Period, one of the IP character licensed by our Group was alleged to have infringed certain trademarks and IP characters of a third party character IP brand in the PRC and as a result certain legal proceedings involving our Group and/or our licensees ensued (the "**Adverse Proceedings**"). Please refer to "Business — Legal Proceedings and Compliance — Disputes and legal proceedings relating to a third party character IP brand" in this Prospectus for further details. As at the Latest Practicable Date, we had contingent liabilities of approximately HK$4.5 million in relation to the Adverse Proceedings. Our Directors consider that the likelihood of materialisation of such contingent liabilities to be minimal. For details, please refer to note 31 to the Accountant's Report set out in Appendix I to this Prospectus.

On 13 September 2021, our Company declared dividends in the amount of approximately HK$27.0 million out of our retained earnings, of which approximately HK$20.0 million had been utilised to settle our amounts due from Semk Holdings, whereas the remaining balance of approximately HK$7.0 million (including the balance of amounts due to Semk Holdings of approximately HK$0.4 million as at 31 October 2021) had been fully settled as at the Latest Practicable Date.

Save as disclosed above in this sub-section, our Directors confirm that, since 30 June 2021 and up to the date of this Prospectus, (i) there had been no material adverse change in the market conditions or the industry and environment in which we operate that materially and adversely affect our financial or operating position; (ii) there had been no material adverse change in the financial or trading positions or prospect of our Group, and (iii) there had been no event which would materially affect the information shown in the Accountant's Report in Appendix I to this Prospectus.

In this Prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

"6M2020"	:	six months ended 30 June 2020
"6M2021"	:	six months ended 30 June 2021
"Accountant's Report"	:	the accountant's report set out in Appendix I to this Prospectus
"affiliate(s)"	:	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Amended and Restated Shareholders' Agreement"	:	the amended and restated shareholders' agreement dated 9 July 2021, entered into by and among Semk Global, the Pre-IPO Investors and our Company
"Articles of Association" or "Articles"	:	the articles of association of the Company conditionally adopted on 20 December 2021 to take effect on the Listing Date and as amended from time to time, a summary of which is set out Appendix III to this Prospectus
"ASEAN"	:	The Association of Southeast Asian Nations, a regional intergovernmental organisation comprising 10 countries in Southeast Asia, namely Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam
"associate(s)"	:	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	:	the audit committee of the Board
"B.Duck Family Characters"	:	all our self-created characters and IP rights under the B.Duck Family and Friends, including but not limited to B.Duck, Buffy, B.Duck Baby, Papa, Mama, Jack, Rice, Pinky, Teal, Ice and any other characters and their registered names that may be developed by our Group from time to time
"B.Duck Fans"	:	fans and followers of B.Duck Family Characters
"Board" or "Board of Directors"	:	the board of Directors
"Business Day(s)" or "business day(s)"	:	a day(s) on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong

"BVI"	:	the British Virgin Islands
"BVI Legal Advisers"	:	Maples and Calder (Hong Kong) LLP, the legal advisers to our Company as to BVI laws
"Capitalisation Issue"	:	the allotment and issue of Shares as referred to "A. Further Information about our Group — 3. Resolutions of our Shareholders" in Appendix IV to this Prospectus
"CCASS"	:	the Central Clearing and Settlement System established and operated by the HKSCC
"CCASS Clearing Participant"	:	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	:	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	:	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
"CCASS Operational Procedures"	:	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
"CCASS Participant"	:	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"China" or "PRC"	:	the People's Republic of China, for the purpose of this Prospectus only, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
"China Everbright Bank"	:	China Everbright Bank Company Limited Credit Card Centre* (中國光大銀行股份有限公司信用卡中心), a business unit of a PRC state-owned commercial bank whose shares are listed on the Stock Exchange and Shanghai Stock Exchange
"City Legend"	:	City Legend International Limited, a limited liability company incorporated in Hong Kong on 17 July 2015 and was indirectly wholly-owned by OCT (Asia) as at the Latest Practicable Date

"close associate"	:	has the meaning ascribed to it under the Listing Rules
"Co-Lead Managers"	:	the co-lead managers as named in "Directors and Parties Involved in the Goboal Offering" in this Prospectus
"Companies Act" or "Cayman Companies Act"	:	the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented and otherwise modified from time to time
"Companies Ordinance"	:	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	:	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company"	:	Semk Holdings International Limited (德盈控股國際有限公司), an exempted company incorporated under the laws of the Cayman Islands on 10 December 2020 with limited liability
"connected person(s)"	:	has the meaning ascribed thereto under the Listing Rules
"connected transaction(s)"	:	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholder(s)"	:	has the meaning ascribed thereto in the Listing Rules and unless the context requires otherwise, refers to Mr. Hui, Semk Holdings and Semk Global, and together they are a group of Controlling Shareholders of our Company
"core connected person(s)"	:	has the meaning ascribed thereto under the Listing Rules
"Corporate Governance Code"	:	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
"COVID-19"	:	a viral respiratory disease caused by the severe acute, respiratory syndrome coronavirus 2, which has been declared by World Health Organisation as a pandemic on 11 March 2020
"Deed of Indemnity"	:	the deed of indemnity dated 20 December 2021 entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of our present subsidiaries) to provide certain indemnities, further information on which is set forth in the section headed "D. Other Information — 18. Tax and other indemnities" in Appendix VI to this prospectus
"Deed of Non-competition"	:	the deed of non-competition dated 20 December 2021 given by the Controlling Shareholders in favour of our Company (for itself and for benefit of each of the member of the Group) regarding the non-competition undertaking, further information of which is set out in "Relationship with our Controlling Shareholders" in this Prospectus

"Douyin"	:	Douyin (抖音), a Chinese short video social media app
"Director(s)"	:	the director(s) of the Company
"ENS Business"	:	ENS Business Development Limited (盈思創展有限公司), a limited liability company incorporated in Hong Kong on 12 August 2016 and an indirect wholly-owned subsidiary of our Company
"ENS Fashion"	:	Shenzhen ENS Fashion Network Technology Limited* (深圳市盈思風尚網絡科技有限公司), a limited liability company established in the PRC on 22 May 2018 and an indirect wholly-owned subsidiary of our Company
"ENS Hangzhou"	:	ENS Hangzhou Network Limited* (杭州盈意網絡有限公司), a limited liability company established in the PRC on 4 August 2021 and an indirect wholly-owned subsidiary of our Company
"ENS Holdings"	:	ENS Holdings Investment Limited (盈思控股投資有限公司), a limited liability company incorporated in Hong Kong on 18 August 2015 and an indirect wholly-owned subsidiary of our Company
"ENS IT"	:	ENS Internet Technology (Shenzhen) Limited* (盈思網絡科技(深圳)有限公司), a limited liability company established in the PRC on 10 October 2015 and an indirect wholly-owned subsidiary of our Company
"ENS International"	:	ENS International Enterprises Ltd (盈思國際企業有限公司), a business company incorporated with limited liability in the BVI on 7 August 2015 and its entire issued share capital is owned as to 98% by Semk Global and 2% by Sky Planner
"ENS Lishui"	:	ENS Lishui Network Limited* (麗水盈思網絡有限公司), a limited liability company established in the PRC on 31 May 2021 and an indirect wholly-owned subsidiary of our Company
"ENS Marketing"	:	ENS Marketing (Shenzhen) Limited* (盈思商貿(深圳)有限公司), a limited liability company established in the PRC on 26 May 2009 and its entire equity interests were wholly-owned by an Independent Third Party before its deregistration on 27 April 2020

"ENS Promotion"	:	ENS Promotion (Shenzhen) Limited* (深圳市盈際商貿有限公司), a limited liability company established in the PRC on 17 February 2017 and an indirect wholly-owned subsidiary of our Company
"ENS Retailing"	:	ENS Retailing (Shenzhen) Limited* (深圳市盈志商貿有限公司), a limited liability company established in the PRC on 23 December 2016 and an indirect wholly-owned subsidiary of our Company
"ENS Toys"	:	ENS Toys (Huizhou) Limited* (盈森玩具(惠州)有限公司), a limited liability company established in the PRC on 19 January 2007 and its entire equity interests is ultimately wholly-owned by Mr. Hui. ENS Toys provides manufacturing services for our Group and other Independent Third Parties
"ENS Trend"	:	Shenzhen ENS Trend Network Technology Limited* (深圳市盈思潮流網絡科技有限公司), a limited liability company established in the PRC on 21 May 2018 and an indirect wholly-owned subsidiary of our Company
"Extreme Conditions"	:	any extreme conditions or events, the occurrence of which causes interruption to ordinary course business operations in Hong Kong and/or that may affect the Price Determination Date or the Listing Date
"**eWhite Form**"	:	the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of the **eWhite Form** Service Provider at **www.ewhiteform.com.hk**
"**eWhite Form** Service Provider"	:	the **eWhite Form** Service Provider designated by our Company, as specified on the designated website at **www.ewhiteform.com.hk**
"Facebook"	:	a social network service, owned and operated by Facebook Inc., an Independent Third Party
"Frost & Sullivan"	:	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market research institution
"Frost & Sullivan Report"	:	an independent industry report prepared by Frost & Sullivan and commissioned by our Company, an extract of which is set out in "Industry Overview" in this Prospectus

"FY" or "financial year"	:	financial year of our Company ended or ending 31 December
"GDP"	:	gross domestic product
"General Rules of CCASS"	:	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
"Global Offering"	:	the Hong Kong Public Offering and the International Offering
"GREEN Application Form(s)"	:	the application form(s) to be completed by the **eWhite Form** Service Provider
"Group", "we", "our" or "us"	:	our Company and our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the entities which carried on the business of our Group at the relevant time
"HK$" or "HK Dollars"	:	Hong Kong dollars, the lawful currency of Hong Kong
"HK–China Market"	:	the Hong Kong market and the China market, which, for the avoidance of doubt, exclude the Macao Special Administrative Region of the PRC and Taiwan for the purpose of this Prospectus
"HKFRSs"	:	Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and Interpretations promulgated by the Hong Kong Accounting Standards Board
"HKSCC"	:	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	:	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"HKTVmall"	:	hktvmall.com, a Hong Kong business-to-consumer platform within its consumer e-commerce website
"Hong Kong Branch Share Registrar"	:	Boardroom Share Registrars (HK) Limited
"Hong Kong" or "HK"	:	the Hong Kong Special Administrative Region of the PRC
"Hong Kong IP Legal Advisers"	:	Hogan Lovells, the legal advisers to our Company as to certain matters relating to Hong Kong IP laws

"Hong Kong Public Offering"	:	the offer of Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005% and Financial Reporting Council transaction levy of 0.00015%) on the terms and subject to the conditions described in this Prospectus, as further described in "Structure of the Global Offering — The Hong Kong Public Offering" in this Prospectus
"Hong Kong Offer Shares"	:	the 12,000,000 Shares initially to be offered by the Company for subscription pursuant to the Hong Kong Public Offering at the Offer Price, subject to reallocation as described in "Structure of the Global Offering"
"Hong Kong Underwriters"	:	the underwriters for the Hong Kong Public Offering as listed out in "Underwriting"
"Hong Kong Underwriting Agreement"	:	the Hong Kong underwriting agreement dated 29 December 2021 relating to the Hong Kong Public Offering entered into among the Company, the Controlling Shareholders, Mr. Hui, the Sole Sponsor and the Hong Kong Underwriters, as further described in "Underwriting" in this Prospectus
"Independent Third Party(ies)"	:	an individual(s) or a company(ies) who is/are or which is/are not connected with (within the meaning of the Listing Rules) any Directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of the Company or any of its subsidiaries or any of their respective associates and not connected person(s) of our Company
"International Offer Shares"	:	the 108,000,000 Shares being initially offered for subscription under the International Offering together, where relevant, with any additional Shares that may be issued by our Company pursuant to any exercise of the Over-allotment Option, subject to adjustment and reallocation as described in "Structure of the Global Offering" in this Prospectus
"International Offering"	:	the conditional placing of the International Offer Shares by the International Underwriters for and on behalf of our Company to institutional, professional, corporate and other investors in Hong Kong and elsewhere in the world outside the United States at the Offer Price in accordance with Regulation S, as further described in "Structure of the Global Offering" in this Prospectus
"International Underwriters"	:	the underwriters of the International Offering

"International Underwriting Agreement"	:	the international underwriting agreement relating to the International Offering and expected to be entered into by, among others, our Company, the Controlling Shareholders, the Sole Representative and the International Underwriters on or about the Price Determination Date, as further described in "Underwriting — International Offering" in this Prospectus
"IP(s)"	:	intellectual property(ies)
"ISA Global"	:	ISA Global Licensing Limited (意高品牌國際有限公司), a limited liability company incorporated in Hong Kong on 19 August 2008 and its issued share capital is owned as to 60% by Mr. Hui and 40% owned by Ms. Lam Ngan Shan, the spouse of Mr. Hui. ISA Global is a property holding company
"JD.com"	:	jd.com, a Chinese business-to-consumer platform within its consumer e-commerce website
"Joint Bookrunners"	:	the joint bookrunners as named in "Directors and Parties Involved in the Global Offering" in this Prospectus
"Joint Global Coordinators"	:	the joint global coordinators as named in "Directors and Parties Involved in the Global Offering" in this Prospectus
"Joint Lead Managers"	:	the joint lead managers as named in "Directors and Parties Involved in the Global Offering" in this Prospectus
"Kafutoy Industrial"	:	Kafutoy Industrial Company Limited (嘉富得實業有限公司), a limited liability company incorporated in Hong Kong on 28 September 1993 and its issued share capital is owned as to 50% by Mr. Hui Pak Shun and as to 50% by Ms. Ng Pui Ching, the parents of Mr. Hui. Kafutoy Industrial is a property holding company
"Latest Practicable Date"	:	21 December 2021, being the latest practicable date for the purpose of ascertaining certain information in this Prospectus prior to its publication
"Licensed Characters"	:	the characters which our Group are licensed to use for the purposes stated in the respective licensing agreements entered into between our Group and the licensors from time to time
"Licensing International"	:	Licensing International (formerly known as International Licensing Industry Merchandisers' Association)
"Listing"	:	the listing of the Shares on the Main Board of the Stock Exchange

"Listing Committee"	:	the listing committee of the Stock Exchange
"Listing Date"	:	the date, expected to be on Monday, 17 January 2022, on which dealings in the Shares first commence on the Main Board of the Stock Exchange
"Listing Rules"	:	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Litigation Legal Advisers"	:	Chungs Lawyers in association with DeHeng Law Offices, the legal advisers to our Company as to Hong Kong laws in respect of certain litigation matters
"Memorandum of Association" or "Memorandum"	:	the memorandum of association of our Company (as amended from time to time), a summary of which is set out in Appendix III of this Prospectus
"Mr. Hui"	:	Mr. Hui Ha Lam, our founder, chairman, chief executive officer, executive Director and one of our Controlling Shareholders
"Nanjing Overseas Chinese Town"	:	Nanjing Overseas Chinese Town Industrial Development Co. Ltd.* (南京華僑城實業發展有限公司), under a PRC state-owned tourism and property development group which is engaging in theme park operation business. Its parent company is listed on the Shenzhen Stock Exchange
"Nomination Committee"	:	the nomination committee of the Board
"OCT (Asia)"	:	Overseas Chinese Town (Asia) Holdings Limited, a limited liability company incorporated in the Cayman Islands and whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 3366)
"OCT Limited"	:	Shenzhen Overseas Chinese Town Co., Ltd, a limited liability company established in the PRC whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000069.SZ)
"Offer Price"	:	the final Hong Kong dollar price per Offer Share (exclusive of brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy) at which the Offer Shares are to be subscribed for pursuant to the Global Offering, as further described in "Structure of the Global Offering" in this Prospectus
"Offer Shares"	:	the Hong Kong Offer Shares and the International Offer Shares

"OJ VC"	:	OJ VC Limited, a limited liability company incorporated in Hong Kong on 28 March 2013 and its entire issued share capital was indirectly owned as to 50% by Mr. Wong Chung Mang Jonah and as to 50% by Ms. Lo Sze Man (who is the spouse of Mr. Wong Chung Mang Jonah) prior to its divestment of its shareholding in Semk Cayman and ENS International
"Over-allotment Option"	:	the option granted by our Company under the International Underwriting Agreement, pursuant to which the Sole Representative may require us to allot and issue up to an aggregate of 18,000,000 additional new Shares (representing 15% of the total number of the Offer Shares initially available under the Global Offering), if any, as further described in "Structure of the Global Offering" in this Prospectus
"PRC Company Law"	:	the Company Law of the PRC (中華人民共和國公司法), as adopted by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) on 29 December 1993, and latest amended on 26 October 2018
"PRC government" or "State"	:	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
"PRC Legal Advisers"	:	Beijing Zhong Lun Law Firm (Shenzhen Office), the legal advisers to our Company as to PRC laws
"PRC IP Legal Advisers"	:	Guangdong Team Source Law Firm, the legal advisers to our Company as to PRC IP laws
"Pre-IPO Investors"	:	Top Plenty, Wisdom Thinker, Sky Planner, Unite Way and City Legend
"Premier Noble"	:	Premier Noble Limited, a limited liability company incorporated in the BVI on 28 May 2015 and the entire issued share capital of which was wholly-owned by Mr. Yan Kam Cheong prior to its divestment of its shareholding in Semk Cayman
"Price Determination Date"	:	the date on which the Offer Price will be fixed for the purposes of the Global Offering expected to be on or about Friday, 7 January 2022, or such later date as agreed between the Company and the Sole Representative, but in any event no later than Thursday, 13 January 2022

"Regal Hotels"	:	Regal Hotels International Holdings Ltd (Stock Code: 0078), a limited liability company incorporated in Bermuda and whose shares are listed on the Main Board of the Stock Exchange
"Regulation S"	:	Regulation S under the U.S. Securities Act
"Remuneration Committee"	:	the remuneration committee of the Board
"Renminbi" or "RMB"	:	Renminbi, the lawful currency of the PRC
"Reorganisation"	:	the corporate reorganisation arrangements undergone by our Group in preparation for the Listing, details of which are set out in "History, Corporate Structure and Reorganisation" in this Prospectus
"SEA"	:	Southeast Asian countries including Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam
"Semk BVI"	:	Semk (BVI) Limited, a business company incorporated in the BVI with limited liability on 10 December 2020 and an indirect wholly-owned subsidiary of our Company
"Semk Cayman"	:	Semk International Holdings Limited (德盈國際控股有限公司), an exempted company incorporated under the laws of the Cayman Islands on 20 February 2017 with limited liability and its entire issued share capital is owned as to 86.81% by Semk Global, 10.99% by Top Plenty and 2.20% by Sky Planner
"Semk Fuzhou"	:	Semk Trading (Fuzhou) Co. Ltd* (德盈卓能商貿(福州)有限公司), a limited liability company incorporated in the PRC on 14 September 2018 and an indirect wholly-owned subsidiary of our Company
"Semk Global"	:	Semk Global Investment Ltd (德盈環球投資有限公司), a business company incorporated with limited liability in the BVI on 31 July 2015, which is indirectly wholly-owned by Mr. Hui. Semk Global is one of our Controlling Shareholders
"Semk Holdings"	:	Semk Products (Holdings) Limited (森科產品(集團)有限公司), a limited liability company incorporated in Hong Kong on 20 January 2009 and is directly wholly-owned by Mr. Hui. Semk Holdings is one of our Controlling Shareholders

"Semk Hong Kong"	:	Semk Global Marketing Limited (德盈市場拓展有限公司), a limited liability company incorporated in Hong Kong on 20 June 2007 and an indirect wholly-owned subsidiary of our Company
"Semk International"	:	Semk International Enterprises Ltd (德盈國際企業有限公司), a business company incorporated with limited liability in the BVI on 7 August 2015 and a direct wholly-owned subsidiary of our Company
"Semk Investment"	:	Semk Holdings Investment Limited (德盈控股投資有限公司), a limited liability company incorporated in Hong Kong on 18 August 2015 and an indirect wholly-owned subsidiary of our Company
"Semk Licensing"	:	Semk Licensing (Shenzhen) Ltd* (德盈商貿(深圳)有限公司), a limited liability company established in the PRC on 14 March 2016 and an indirect wholly-owned subsidiary of our Company
"Semk Products"	:	SEMK PRODUCTS LIMITED (森科產品有限公司), a limited liability company incorporated in Hong Kong on 14 November 2001 and an indirect wholly-owned subsidiary of our Company
"Semk Shenzhen"	:	Semk Brand Management (Shenzhen) Co., Ltd* (森科品牌管理(深圳)有限公司), a limited liability company established in the PRC on 10 October 2015 and an indirect wholly-owned subsidiary of our Company before its deregistration on 24 January 2019
"SFC" or "Securities and Futures Commission"	:	the Securities and Futures Commission of Hong Kong
"SFO" or "Securities and Futures Ordinance"	:	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
"Shares(s)"	:	means ordinary share(s) in the capital of our Company of par value of US$0.01 each before the Share Subdivision and of par value of US$0.000025 each after the Share Subdivision
"Share Exchange Agreement"	:	the share exchange agreement dated 25 February 2019 entered into amongst Semk Global, OJ VC, Top Plenty, Wealthy Smart, Premier Noble and Sky Planner (as the transferors) and Semk Cayman (as the transferee)

"Share Option Scheme"	:	the share option scheme conditionally adopted by our Company on 20 December 2021, the principal terms of which are summarised in "Statutory and General Information — D. Other Information — 15. Share Option Scheme" set out in Appendix IV to this Prospectus
"Share Subdivision"	:	the subdivision of each issued and unissued ordinary share in the capital of our Company of par value of US$0.01 into 400 ordinary shares of par value of US$0.000025 each to be effected immediately prior to the Capitalisation Issue and completion of the Global Offering, further information on which is set forth in "History, Corporate Structure and Reorganisation — B. Part 2: Reorganisation of e-commerce and other business — (ix) Increase in the authorised share capital of our Company, Share Subdivision, Capitalisation Issue and Global Offering" in this Prospectus
"Shareholder(s)"	:	holder(s) of the Shares(s)
"Shareholders' Agreement"	:	the shareholders' agreement dated 15 April 2021, entered into by and among Semk Global, Top Plenty, Sky Planner, Wisdom Thinker, Unite Way and our Company, which was superseded by the Amended and Restated Shareholders' Agreement
"Sky Planner"	:	Sky Planner Investments Limited, a business company incorporated with limited liability in the BVI on 8 March 2017 and which was owned by Mr. Tsang Kin Chung Terry as to 50% and Mr. Tsang Kin Ho as to 50% as at the Latest Practicable Date
"Sole Sponsor" or "China Everbright Capital Limited"	:	China Everbright Capital Limited, a corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the sole sponsor to the Listing
"Sole Representative", or "China Everbright Securities" or "Stabilising Manager"	:	China Everbright Securities (HK) Limited, a corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the sole representative of the Global Offering
"South Korea"	:	the Republic of Korea which constitute the southern part of the Korean Peninsula

"Stock Borrowing Agreement"	:	a stock borrowing agreement expected to be entered into on or about the Price Determination Date between the Stabilising Manager and Semk Global, pursuant to which the Stabilising Manager may borrow up to 18,000,000 Shares from Semk Global
"Stock Exchange"	:	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	:	has the meaning ascribed thereto under the Listing Rules
"substantial shareholder(s)"	:	has the meaning ascribed thereto under the Listing Rules
"Takeovers Code"	:	the Code on Takeovers and Mergers and Share Buy-backs, as amended, supplemented or otherwise modified from time to time
"Taxation"	:	all forms of tax, duty, rate, levy, charge or other imposition or withholding whenever created, imposed or arising and whether of Hong Kong or elsewhere, including all forms of profit tax, provisional profit tax, interest tax, salaries tax, property tax, tax on capital gains, sales and value added tax, estate duty, death duty, inheritance tax, capital duty, stamp duty, payroll tax, withholding tax, rates, customs and other import and exercise duties, and generally any tax, duty, impost, levy or rate or any amount payable to the revenue, customs of fiscal authorities whether in Hong Kong or elsewhere
"Tmall"	:	tmall.com, a Chinese business-to-consumer platform within its consumer e-commerce website
"Top Plenty"	:	Top Plenty Limited (崇豐有限公司), a limited liability company incorporated in Hong Kong on 22 March 1994 and was indirectly wholly-owned by Wong's International as at the Latest Practicable Date
"Track Record Period"	:	FY2018, FY2019, FY2020 and 6M2021
"Underwriters"	:	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	:	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"Unite Way"	:	Unite Way Investment Holding Limited (萬通投資控股有限公司), a business company incorporated with limited liability in the BVI on 15 March 2021 and which was wholly-owned by Mr. Lee Yi Kei as to 51% and Mr. Ho Kin Wan as to 49% as at the Latest Practicable Date

"U.S." or "USA"	:	the United States of America
"U.S. Securities Act"	:	U.S. Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
"US$" or "US Dollars"	:	United States dollars, the lawful currency of the United States
"VIP.com"	:	vip.com, a Chinese e-commerce website which offers branded products at discounts to retail prices with various product categories
"Wealthy Smart"	:	Wealthy Smart Investments Limited, a business company incorporated with limited liability in the BVI on 20 December 2016 and which was indirectly wholly-owned by Regal Hotels prior to its divestment of its shareholding in Semk Cayman
"Wisdom Thinker"	:	Wisdom Thinker Limited, a business company incorporated with limited liability in the BVI on 3 January 2020 and which was wholly-owned by Dr. Lee Ka-kit as at the Latest Practicable Date
"Wong's International"	:	Wong's International Holdings Limited, a limited liability company incorporated in Bermuda and whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 0099)
"%"	:	per cent

In this Prospectus, the names of Chinese laws and regulations, governmental authorities, organisations, institutions, enterprises, natural persons or other entities (including certain of our subsidiaries) or awards and certificates have been included in this Prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese language version shall prevail. The English translation of company names in Chinese which are marked with "" is for identification purposes only.*

Unless expressly stated or the context requires otherwise: (i) amounts and percentage figures, including share ownership and operating data in this Prospectus, may have been subject to rounding adjustments. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items; and (ii) solely for your convenience, this Prospectus contains translations of certain US$ into HK$ and RMB into HK$ at specified rates. You should not construe these translations as representations that US$ and RMB could actually be, or have been, converted into HK$ at the rate indicated or at all. Unless we indicate otherwise, the translations of HK$ into US$ and RMB into HK$ have been made at the rates of HK$7.75 into US$1.00 and RMB$0.85:HK$1.00, respectively.

This glossary of technical terms contains explanations of certain terms used in this Prospectus as they relate to our Company and are used in this Prospectus in connection with our business or us. These terms and their given meanings may not correspond to standard industry definitions.

"3D"	three dimensions, i.e. height, width and depth that are used to render an object into a three-dimensional representation
"augmented reality" or "AR"	overlaying of digital content is blended with the real world that allows a consumer to interact with both the real world and digital elements or augmentations
"app(s)"	computer programme(s) designed to run on a mobile device such as a phone/tablet or watch
"CAGR"	compound annual growth rate
"Double-Eleven"	the online promotional event held by Alibaba Group annually
"evergreen character(s)"	a character that remains popular in the market for a substantial period of time
"excess royalty"	a payment made by a licensee to a licensor to obtain the licensing rights in the event the cumulative royalty amount exceeds the minimum guarantee
"Generation Z" or "Gen Zers"	the youngest generation cohort who were born between 1995 and 2009
"GMV"	gross merchandise value
"IT"	information technology
"Key opinion leaders" or "KOLs"	individuals with a significant number of followers that are able to influence their followers and others
"LBE developers"	developers, owners and operators of LBE destinations and venues
"licensing agent(s)"	a company that develops and manages licensing programmes for brand owners or licensors, and manufacturers or licensees. The primary role of the agent is to bring the two parties together to consummate licensing agreements in return for a share of the royalties
"Location-based entertainment" or "LBE"	any kind of entertainment that is tied to a particular outdoor or indoor attractions and leisure destinations, such as theme parks, activity parks, amusement parks, shopping arcades and malls, entertainment centres, cinemas and theatres, sport venues and other commercial leisure venues, etc.

"MCNs"	multi-channel networks, which refer to agencies that work with content creators and assist them in areas such as audience development, content programming, content creator collaborations, digital rights management, monetisation and sales
"minimum guarantee"	an advance payment made by a licensee to a licensor to obtain the licensing rights; it is usually non-refundable but recoupable or shall be set-off against the royalty payable
"SKU(s)"	a stock keeping unit which is an identification code assigned to a product or service to identify the price, product options and manufacturer of the merchandise
"style guide(s)"	a manual (book, CD ROM or website) produced by licensors, which provides information, creative direction and design assets to guide licensees in the development of products or articles, packaging and collateral materials. Style guides typically include corporate identity information, typography, colour palettes, licensable assets, packaging guidelines, legal requirements and other pertinent information
"territory(ies)"	the geographic area(s), typically defined by country, in which a licensor grants a licensee the right to produce, distribute, sell and/or provide the licensed products or services
"virtual reality" or "VR"	computer-generated stereo visuals which entirely surround the consumers, entirely replacing the real world environment around them

This Prospectus contains forward-looking statements. When used in this Prospectus, the words "aim", "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "might", "plan", "propose", "seek", "should", "target", "will", "would" and the negative of these words and other similar expressions, as they relate to our Group or our management, are intended to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and our operating and expansion plans;
- our objectives and expectations regarding our future operations, profitability, liquidity and capital resources;
- future events and developments, trends and conditions in the industry and markets in which we operate or plan to operate;
- our ability to control costs;
- our ability to identify and successfully take advantage of new business development opportunities; and
- our dividend policy

Such statements reflect the current views of our management with respect to future events, operations, profitability, liquidity and capital resources, some of which may not materialise or may change. Actual results may differ materially from information expressed or implied by the forward-looking statements as a result of a number of uncertainties and factors, without limitation, the risks factors set out in "Risk Factors" and the following:

- changes in the laws, rules and regulations applicable to us;
- general economic, market and business conditions in the PRC and Hong Kong, including the sustainability of the economic growth in the PRC and Hong Kong;
- changes in the regulatory environment and general outlook in the future development, trends and conditions in the markets which we export our products to;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- business opportunities and expansion that we may pursue;
- our ability to identify, measure, monitor and control risks in our business, including our ability to improve our overall risk profile and risk management practices; and
- other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this Prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in "Risk Factors".

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

An investment in our Shares involves various risks. You should carefully consider all the information in this Prospectus and, in particular, the risks and uncertainties described below before making an investment in our Shares.

The occurrence of any of the following events could materially and adversely affect our business, financial condition, results of operations or prospects. If any of these events occur, the trading price of our Shares could decline and you may lose all or part of your investment. You should seek professional advice from your relevant advisers regarding your prospective investment in the context of your particular circumstances.

RISKS RELATING TO THE BUSINESS OF OUR GROUP

Substantially all our revenue is generated from our B.Duck Family Characters and any significant adverse impacts on our B.Duck Family Characters and our other character IP rights could materially affect our business

Substantially all our revenue is generated from our B.Duck Family Characters. During the Track Record Period, revenue attributable to our B.Duck Family Characters accounted for approximately 99.2%, 98.9%, 99.0% and 99.5% of our total revenue for our character licensing business, respectively. According to the Frost & Sullivan Report, consumers may lose their interest in those IPs which were attractive to them in their childhood, and old IPs and characters may not be able to attract the current generation of children. In particular, B.Duck was created 16 years ago in 2005. We cannot assure you that B.Duck and our other IP characters will remain popular and will attract as many consumers and fans from new generations as in the past. As our Directors expect our Group will continue to derive a significant amount of revenue from our B.Duck Family Characters, should there be (i) any reduction in the number of fans and consumers for our B.Duck Family Characters; (ii) any decrease in the popularity of our B.Duck Family Characters; (iii) any failure of us to make improvements, upgrades or enhancements to our B.Duck Family Characters in a timely manner; or (iv) any other adverse developments specific to our B.Duck Family Characters, our business, financial condition and results of operations could be adversely affected.

Our Directors believe that the popularity and strong awareness of our character IP rights, particularly for B.Duck, contribute to a wider consumer and fan base and thus the drive of our business growth. Therefore, maintaining and enhancing the popularity are crucial to the continuous success of our characters in retaining and attracting new consumers and fans which will lead to the continuous growth of our business. Any unfavourable feedback on the image or publicity of our B.Duck Family Characters, such as negative comments on different media on any products, contents or events associated with our B.Duck Family Characters, may affect the popularity of our B.Duck Family Characters.

We may not be able to identify and respond to the changes in trends and consumer preferences in a timely manner

Our Directors believe our business success depends on our ability to anticipate future trends and preferences of consumers and fans which change from time to time, hence our ability to design and launch new or rebranded characters matching the appetites of the consumers and fans, and to address their evolving needs and preferences. Our business activities include our design consultation service which we generate tailor-made designs and style guides to jointly develop products and content with our licensees and the development and sale of our B.Duck Family Characters-featured products. While our business performance highly depends on the success of our licensees' and our own products, content or services, if our design is not accepted by the end consumers resulting in poor sale performance, it may affect our business growth. Therefore, any failure to accurately anticipate the trends and react to prevailing consumer preferences in a timely manner could adversely affect our business growth, which may in turn have a material adverse effect on our business, financial condition and results of operations.

We derived substantially all our revenue in the China market during the Track Record Period

Our revenue generated in the China market amounted to approximately HK$182.3 million, HK$224.2 million, HK$227.2 million and HK$119.2 million, respectively, during the Track Record Period which accounted for approximately 90.8%, 92.3%, 97.3% and 96.3% of our total revenue, respectively. We expect this situation to continue in the near future. Accordingly, our business, results of operations and financial conditions are, to a significant degree, subject to economic developments in the China market. The Chinese economy differs from the economies of most developed countries in many aspects, including the extent of government involvement, level of development, growth rate, control of foreign exchange, and allocation of resources. The Chinese government continues to exercise significant control in regulating industry developments, allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies. The economy of the China market has experienced significant growth over the past decade. If we experience any difficulty in maintaining our business in the China market or any downturn in the China market or its economic conditions generally, it could have a material adverse effect on our results of operations and financial conditions.

Infringement or misappropriation claims by any third parties against us or unauthorised use of our IP rights may adversely affect our business and reputation

Our success depends largely on our ability to use and develop our design abilities and expertise without infringing the IP rights of third parties and our ability to protect our IP rights.

Although we take prudent measures to ensure the originality of our creation to avoid claims arising from copying, sometimes independent creations may still constitute infringement of certain IP rights. Therefore, as much as we would endeavour to avoid any infringement dispute, we cannot assure you that third parties will not assert IP claims against our Group or our licensees during the course of our operation. The validity and scope of such IP claims often involve complex legal and factual issues and analyses, which entail uncertainty and ambiguity. Depending upon whether the claim involves our key characters or merely accessory works, the nature of the IP right involved, the extent of use of the design in dispute and the applicable law, an adverse infringement decision could subject our Group to significant liability to third parties, and require our Group to indemnify our licensees for damages with related costs incurred, seek licenses from third parties or otherwise subject our Group to injunctions which prohibit the further use of the design in dispute. During the Track Record Period, one of the IP characters licensed by our Group was alleged to have infringed certain trademarks and IP characters of a third party character IP brand in the PRC and as a result certain legal proceedings involving our Group and/or our licensees ensued (the "**Adverse Proceedings**"). Please refer to "Business — Legal Proceedings and Compliance" in this Prospectus for details of certain legal proceedings initiated by third parties against our Group during the Track Record Period and up to the Latest Practicable Date, in particular, the sub-section "— Disputes and legal proceedings relating to a third party character IP brand" for a detailed discussion of the Adverse Proceedings.

Where registration of IP rights is possible and is a prudent and cost-effective measure to secure protection, our Group will do so after seeking professional advice. However, whilst registration will usually confirm ownership and subsistence of rights, some registrations can still be challenged due to prior existing rights. We cannot assure you that our IP registrations are complete or are invulnerable. In addition to IP registrations and laws against all third parties at large, we also rely on contractual restrictions through licensing agreements, employment agreements and confidentiality provisions to protect our IP rights in Hong Kong, the PRC and other jurisdictions against entities we work with.

If there is any unauthorised use of our IP rights, such as counterfeit products or products using confusingly similar designs, trademarks or other IP rights, our business, in particular, the distinctiveness and image of our characters would be harmed and it would lead to reduced consumer confidence and therefore a loss of sales for our licensees. As mentioned above, we rely upon our IP registrations and the applicable IP laws to protect our IP rights. Besides the fact that registrations may still be subject to challenge, some IP rights are not registrable and the question and extent of similarity between our IP rights and what we consider to be infringements may be subjects of contention. Moreover, the IP laws regarding character merchandising is a growing area. Hence, unless the infringement is an obvious copy, there are often risks in enforcement actions.

During the Track Record Period, our PRC IP Legal Advisers initiated approximately 124, 618, 587 and 192 evidence-related proceedings including preservation of evidence, and lawsuits against infringers, respectively. The related costs incurred were approximately HK$0.7 million, HK$2.3 million, HK$1.5 million and HK$0.2 million, respectively, and we obtained compensation of approximately HK$1.0 million, HK$3.3 million, HK$1.4 million and nil, respectively, in respect of the lawsuits and settlements prior to and after the initiation of the lawsuits. Furthermore, during the Track Record Period, our other legal advisers initiated approximately 56, 1,334, 1,024 and 176 evidence-related proceedings including preservation of evidence, and lawsuits against infringers, respectively. The related costs incurred were approximately HK$14,000, HK$0.6 million, HK$0.2 million and HK$48,000, respectively, and we obtained compensation of approximately HK$2,000, HK$0.4 million, HK$0.3 million and HK$59,000, respectively, in respect of the lawsuits and settlements prior to and after the initiation of the lawsuits. Although litigation carries risks and requires costs and the diversion of our resources, our Directors consider that our Group must take actions to properly enforce our IP because a failure to do so, particularly those IP rights relating to the distinctives of our characters, could have a material adverse impact on our reputation, business, financial conditions, results of operations and prospects as well as severely compromising our competitive position.

Our business relies on our ability to maintain our existing relationships with licensees and our ability to attract new licensees to utilise our IP rights

We grant our licensees the right to use our character IPs in different categories, and provide support of design specifically to the needs and requests of the licensees. We work with licensees to generate revenue, and to increase the popularity of B.Duck Family Characters. We ride on the popularity of our licensees, their customer base, brand image and market position to increase our awareness in the market and thus the revenue and growth of our business. The visibility and publicity of B.Duck Family Characters would be enhanced when associated with a well-known licensee. However, our Directors believe that the end consumers may be critical of the products, content or services for a wide variety of reasons. There is no guarantee that our licensees will be able to maintain their popularity or brand image, or able to maintain the marketability of the products, content or services associated with B.Duck Family Characters. If we are not able to acquire preferable licensees, or our licensees are not able to continuously meet consumer's expectations, our business, financial conditions and results of operations could be adversely affected.

Our ability to continue to grow our revenue and profit depends in large part on our ability to maintain our existing relationships with licensees and our ability to attract new licensees to utilise our character IP rights. We rely on our reputation in the character licensing industry as well as our marketing and promotional activities (including social media viewing statistics) to attract licensees to use our character IP rights. We cannot guarantee that our IP rights will remain attractive. Moreover, if our design team is not able to assist the customers to apply satisfactorily the character IP rights onto their products, content or services, or, for any other reasons, the products, content or services associated with our character IP rights are not well received by end-users, it may be difficult for us to maintain the relationship with our licensees.

With regard to the existing licensing agreements between our Group and the licensees, if we fail to comply with the terms of such agreements, or if we fail to remedy any such breach in a timely manner, the licensees are entitled to terminate their relevant licensing agreements prior to the expiry. Also, in the event that any licensees choose not to renew their respective licensing agreements upon expiry for any reason, we cannot assure you that we can successfully attract new licensees as replacement. As a result of such breach of or failure to renew the licensing agreements, our business, profitability, financial position and results of operations may be materially and adversely affected.

We rely on the contractual terms as set forth in the licensing agreements entered into between us and our licensees to manage the use of our IPs by our licensees. Our licensees are authorised to use our IPs only in the scope set out in the licensing agreements and we require our licensees to protect our IPs and reputation. If our licensees fail to comply with their obligations under the relevant licensing agreements or use our IPs in any way that violates the requirements stipulated in the licensing agreements, such breach or misuse may damage our brand, reputation, business and financial position, and our results of operations may therefore be materially and adversely affected.

Our future growth in our e-commerce and other business depends largely on third-party e-commerce platforms

Our e-commerce and other business relies on a range of third-party e-commerce platforms, such as Tmall, JD.com, VIP.com and HKTVmall. During the Track Record Period, our revenue generated from e-commerce platforms amounted to approximately HK$120.2 million, HK$138.9 million, HK$129.9 million and HK$62.2 million, respectively. To take advantage of the rapid growth of China's online retail market so as to further expand our market share, we plan to further expand our online presence and strengthen our existing market position. We intend to continue working with various third-party e-commerce platforms, which provide us with access to a broad online customer base, and may develop new products exclusively for sale on these platforms. We believe that maintaining a strong position on the popular e-commerce platforms helps to improve our brand visibility and awareness.

However, we may not be successful in any of the following respects. If we are unable to effectively expand our e-commerce and other business, our growth potential and profitability could be materially and adversely affected. The success of the expansion of our e-commerce and other business depends on a number of factors, including but not limited to:

- our ability to maintain relationships with the third-party e-commerce platforms;
- the consumer traffic on our online stores on the third-party e-commerce platforms;
- our ability to respond to the changes in Internet and mobile penetration, as well as the online marketing industry in the PRC;
- the reliability of the third-party e-commerce platforms;
- the availability of related network infrastructure, such as online payment platforms; and
- our ability to develop new products exclusively for sale on these online platforms.

Nevertheless, we have no direct control over the sales activities of the third-party e-commerce platforms we partner with. The third-party e-commerce platforms may seek to improve their profitability by various means, including lower pricing. If we are required to lower prices or accept other requirements that are not favourable to us, it may affect the sales performance of our products, which in turn affect our business prospect.

Our IP rights may not be adequately protected by our IP protection policies and measures

Our Directors believe that IP rights are critically important to our success and our competitive position, therefore IP protection policies and measures are imposed to protect our IP rights and to assure the ownership of our character IP rights. See "Business — Our major IP protection measures" in this Prospectus for further details. We review our IP protection measures on a regular basis and from time to time to enhance the degree of protection. However, we cannot assure you that the actions we have taken can stop all infringements of our IP rights.

As part of our IP protection policies, we have filed trademark applications in the jurisdictions in which our Directors believe to be our principal or targeted markets. Some of our trademark applications are being processed by the relevant government authorities. The IP application and registration policies and procedures in different jurisdictions may differ. For example, the PRC basically adopts a "first-to-file" principle with respect to trademarks and this has resulted in a grave trademark squatting problem. We have situations where third parties have applied for or obtained trademark registrations of our characters or adaptations of our character and these have blocked the registration and use of our own trademarks. Therefore, we have to take further actions to either oppose those applications or invalidate the registrations. We cannot assure you that we will be able to have all IPs (including characters) registered in all the designated jurisdictions. If we fail to register, we may not be able to use the IP without risk of infringement and even if we can use the same, we may have difficulty in enforcing such IP rights against infringement by third parties, and this could have a material adverse impact on our business, financial conditions and operating results.

Due to the recognition and popularity of our IPs, particularly our characters, we expect we have to deal with counterfeits and infringements as part of our normal business operation. See "Infringement or misappropriation claims by any third parties against us or unauthorised use of our IP rights may adversely affect our business and reputation" in this section for further details.

Any loss of our senior management and failure to attract and retain qualified personnel could affect our operations and growth prospects

The design talent, experience and leadership of our senior management team are critical to the success of our business. Our future success depends substantially on the continued services of our executive officers, in particular, Mr. Hui, our founder, chairman, chief executive officer, executive Director and Controlling Shareholder, created our signature character B.Duck and has successfully led our Group to our present market position in the HK–China Market. In addition, the other members of our senior management team have substantial experience and expertise in our business and have made significant contributions to our growth and success.

The unexpected loss of services of one or more of these executive officers and senior management, or if they are unable or unwilling to continue to serve their present positions, we might not be able to replace them easily or at all. In addition, if any of the executive officers and senior management joins a competitor or forms a competing company, our Group may lose expertise and key professionals. Our executive officers and senior management could develop characters and operate character licensing business that could compete with our Group. Each of these executive officers and senior management of our Group has entered into an employment agreement with non-competition clauses with our Group. However, if any dispute arises between our Group and our executive officers and senior management, our Directors consider that these non-competition provisions may not be enforceable. If any of these were to happen, the competitive position and business prospects of our Group may be materially and adversely affected.

Extraordinary events such as natural disasters, epidemics, contagious disease outbreaks, social unrest and terrorist attacks may significantly delay, or interrupt our Group's business

Our business, financial and results of operations may be materially and adversely affected by any adverse economic conditions due to extraordinary events beyond our control in the HK–China Market where we operate, such as natural disasters, epidemics, contagious disease outbreaks, social unrest or terrorist attacks which may significantly delay, or interrupt our Group's business.

Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. See "Business — Impact of outbreak of COVID-19 on our business" for further details on the impact of COVID-19 on our business operation. We cannot assure you that there will not be serious outbreak of COVID-19 or other highly contagious disease in the future in the HK–China Market, or the precautionary measures against infectious diseases will be effective. Since the second half of 2021, there had been a resurgence of COVID-19 in certain parts of China. We are uncertain as to whether there will be any further waves of COVID-19 outbreaks. Even though our business operation was not materially affected by COVID-19 as at the Latest Practicable Date, we cannot predict whether the resurgence of COVID-19 will deteriorate or whether the outbreak will continue to recur from time to time. If such a serious outbreak were to recur, together with any resulting restrictions on travel and/or imposition of quarantines which may materialise and persist for a substantial period, it could have a negative impact on the economy conditions and business activities in the HK–China Market, which could in turn have a material adverse impact on our business, financial conditions, results of operations, performance and prospects.

Failure in product quality control and manufacturers' non-compliance may adversely affect our business

We engage third-party manufacturers to manufacture our products which are sold on the e-commerce platforms. Although we have a quality control system in place in respect of the raw materials used, production process and finished products, we may not have effective control over those third-party manufacturers on their strict compliance with our specifications and instructions. See "Business — Our e-commerce and other business" for further details. If they do not comply with our specifications and we are not able to discover such non-compliance immediately, we may be exposed to product liability claims, administration penalties and/or revocation of business licence which may in return cause damage to our reputation and adversely affect our business, financial condition and results of operation.

If a consumer, user or bystander gets injured by a product that is defective or unreasonably dangerous, the manufacturer or relevant parties in the supply chain can be held responsible for that injury. As a result, we have been, and will continue to be, subject to potential personal injury, product liability and property damage claims and disputes arising out of our products. Although we may have legal grounds against the manufacturers for any such claims and disputes, attempting to enforce our rights against them may be expensive, time-consuming and ultimately futile.

Furthermore, although our agreements with our manufacturers contain confidentiality obligations, and we have adopted internal policies to protect our character IP rights and designs for manufacturing our products from leakage, or from being copied, we cannot guarantee the effectiveness of these efforts. Any leakage or plagiarism of our products could be detrimental to our business.

Our business and growth rely on our ability to retain, motivate and hire a sustainable number of qualified employees

Our Directors believe that our design capabilities are critical to our success. Our ability to continue to grow our business and deliver effective service to our customers depends on our ability to attract and retain qualified and professional employees, who are, in particular, able to effectively provide tailor-made design services and create popular characters. We rely on our experienced and professional design team, which plays a critical role in providing our design consultation services. As at the Latest Practicable Date, we had over 80 designers. Since the demand and competition for talent is intense in the character branding industry, particularly for designers and artists etc., we cannot assure you that we will be able to attract, hire and retain a sufficient number of creative personnel, including but not limited to designers and artists, to continue to support our business, and our business and growth could suffer if we fail to do so. We may need to offer higher compensation and other benefits in order to attract and retain a substantial design team in the future, which could increase our compensation expenses and operation costs.

We may not adhere to our timetable for launching new characters or rebranding existing ones, and the new or rebranded characters may not be commercially successful in generating revenue for our Group

We plan to expand our character portfolio by rolling out new characters or rebranding certain existing characters appealing to different people with different tastes in order to remain competitive and maintain sustainability. However, the progress depends on a number of factors, including market sentiment and general economic condition. We cannot assure you that we will be able to meet the expected timetable. In addition, there is no guarantee that the newly created characters will be well received by the market and become profitable to our Group. There are many factors that may contribute to the success and popularity of new or rebranded characters which we cannot control or estimate accurately. In the event that we fail to anticipate and adapt to future trends, new tastes and end users' preferences, or fail to plan and organise marketing and promotional activities effectively, or fail to differentiate the newly created or rebranded characters from the characters of our competitors, our newly created or rebranded characters might not be popular and profitable to our Group. If our newly created or rebranded characters are not commercially successful, we may not be able to recover relevant marketing and promotion costs, which could be significant. As such, failure to successfully launch new or rebranded characters on a timely basis, or at all, would adversely affect our business, financial conditions and results of operations.

We work with licensing agents to market and license our character IP rights in certain countries

In addition to our own resources, we develop some overseas markets other than the HK–China Market by entering into licensing agency agreements with various licensing agents. We work with these licensing agents to market and license our IP rights, to negotiate and monitor the licensees in those markets. As we do not manage the licensees directly, we may not be able to exercise adequate control over the marketing and day-to-day business operations of the licensing agents and the licensees, and may not be able to effectively respond to the market. If the licensing agents fail to market our IP rights adequately, it may adversely affect our business, profitability and results of operations. Besides, even though we have in place quality control measures to monitor the quality of products or services provided by our licensees, there is no assurance that our licensing agents will be able to consistently monitor the application of our specifications and instructions by the relevant licensees and detect all deficiencies in the relevant services or products. In the event that the licensing agents and/or the licensees engaged by them do not comply with our quality control measures and we are not able to discover such non-compliance in time, any negative incident or negative publicity concerning the services/products bearing our IP characters/brands may have a material adverse impact on our reputation, business, financial condition and results of operations.

We also work with our licensing agents in collecting royalties from licensees in overseas markets. If our licensing agents fail or delay in collecting from the licensees, or if we fail to collect royalties from licensees or from our licensing agents within the relevant credit period, our cash position, liquidity, financial condition and results of operations may be materially and adversely affected.

There is no assurance that the licensing agency agreements entered into with our licensing agents will be extended or renewed after their respective expiration, and there is no assurance that such extended or renewed agreements will be under the same terms and conditions favourable to us. In addition, if any of our licensing agents breaches its obligations under any of these agreements or refuses to extend or renew it when the term expires, we may lose all or a portion of the licensee base we have developed through the licensing agents. Any failure of the above could have a material adverse effect on our reputation, business, financial conditions and results of operations.

We work with third-party logistics service providers to deliver our products

We deliver products from our warehouses to our customers by land transportation through independent third-party logistics service providers. We primarily engage third-party logistics service providers to transport our products, which typically bear the risks and losses associated with the delivery. Disputes with or termination of the contractual relationships with one or more of our logistics service providers could result in delayed delivery of products or increased costs. There can be no assurance that we will be able to continue or extend the relationship with our existing logistics service providers on terms acceptable to us, or that we will be able to establish relationships with new logistics service providers to ensure accurate, timely and cost-efficient delivery services. If we are unable to maintain or develop good and stable relationships with the logistics service providers, it may inhibit our ability to offer products in sufficient quantities, on a timely basis, or at prices acceptable to our consumers. In addition, as we do not have any direct control over the logistics service providers that we partner with, we cannot guarantee their quality of services. These logistics services could be affected or interrupted by natural disasters, accidents, transportations disruptions, including special or temporary restrictions or closing of facilities or transportation networks due to regulatory or political reasons, or labour unrest or shortages. If there is any delay in delivery, damage to products or any other issues during their logistic services, our sales, business operations and brand image may be adversely affected.

The use of third-party manufacturers to manufacture products presents risks to our business

Historically, we have worked with third party OEM manufacturers for majority of our products. As a result, in case there is a loss or unavailability of one of our major manufacturers, albeit temporary, our business, financial conditions and results of operations would be adversely affected. Although our Directors believe that we have the ability to replace our manufacturers if necessary, any such move may be time-consuming and costly. If we fail to shift manufacturers in time, our sales and profitability could be reduced. Establishing relationships with new manufacturers and having them worked on similar terms with matching quality may be difficult as well. We may also be required to seek out additional manufacturers in response to the increasing demand for our products in the future, as our current manufacturers may not have the capacity to increase production. If we fail to receive a material portion of the products made by our manufacturers, or if we fail to shift manufacturers, our sales and profitability could be significantly reduced.

We are exposed to the credit risk in relation to our trade receivables

There is no assurance that our customers will meet their payment obligations on time, in full or at all, or that our Group's average trade receivables turnover days will not increase. For the Track Record Period, our trade receivables turnover days were 12, 20, 46 and 53 days, respectively. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the balance of our Group's trade receivables amounted to approximately HK$5.9 million, HK$20.2 million, HK$38.3 million and HK$33.6 million, respectively. We may also fail to detect changes to the credit risk in relation to our trade receivables over time. We cannot guarantee our Group will be able to successfully collect any or all of the debts due, and any failure on the part of our Group's customers to timely settle the amounts due to us may adversely affect our Group's financial condition and operating cash flows. If we fail to adequately manage our credit risks, bad debt expenses may ensue, which could adversely affect our business, results of operations and financial condition. The provisions for impairment on our trade receivables, which represent the provision for expected credit loss arising from trade receivables, were approximately HK$0.9 million, HK$2.4 million and HK$2.5 million, respectively, for FY2018 to FY2020. On the other hand, we recorded a net reversal of impairment losses on trade receivables of approximately HK$1.2 million for 6M2021.

We are exposed to risks of obsolete and slow-moving inventory which may adversely impact our cash flow and liquidity

The demand for our merchandise which we offer under our e-commerce and other business is highly dependent on our consumers' preferences, which are beyond our control. If we cannot manage our inventory level efficiently, our liquidity and cash flow may be adversely affected. Further, if we fail to offer products that meet our customers' requirements in the future, the volume of obsolete and slow-moving inventory may increase and we may need to either sell off such inventory at a lower price or make provision for such inventory, in the event of which our financial position and results of operations may be materially and adversely affected. As at 31 December 2018, 2019 and 2020, and 30 June 2021, our inventories amounted to approximately HK$21.8 million, HK$22.8 million, HK$21.4 million and HK$33.8 million, respectively. Our average inventory turnover days were 157 days, 108 days, 147 days and 181 days for FY2018 to FY2020 and 6M2021, respectively.

If we fail to recoup the minimum guarantee from our licensees, our contract assets may be subject to write-down

Our contract assets during the Track Record Period primarily represented the unbilled amount resulting from our character licensing business when revenue recognised exceeds the amounts billed to our customers. Our contract assets amounted to approximately HK$19.0 million, HK$15.7 million, HK$21.3 million and HK$16.5 million as at 31 December 2018, 2019 and 2020, and 30 June 2021, respectively, which accounted for 16.0%, 11.3%, 11.3% and 9.5% of our total assets as at the respective dates. Our ability to recoup the unbilled amount depends on whether the relevant licensee adheres to the licensing contract and pays us the royalties. If we fail to recoup our unbilled amount, our contract assets may be subject to provision or write-down. We perform regular review of the contract assets and provision of the contract assets will be made when our Group is not expected to collect the amounts due. The provisions for impairment on our contract assets, which represent the provision for expected credit loss arising from contracts assets, were approximately HK$0.2 million and HK$0.7 million for FY2018 and FY2020, respectively. On the other hand, we had a reversal of impairment losses on contract assets of approximately HK$0.2 million and HK$0.7 million for FY2019 and 6M2021, respectively.

Failure to fulfil our obligations in respect of contract liabilities could materially and adversely affect our results of operation, liquidity and financial position

Our contract liabilities represent our obligations to provide the contracted services to customers. Our contract liabilities mainly arise from the advance payment relating to minimum guarantee made by our customers while the underlying services have yet to be provided. As at 31 December 2018, 2019 and 2020, and 30 June 2021, we had contract liabilities of approximately HK$8.2 million, HK$9.5 million, HK$18.2 million and HK$15.9 million, respectively.

Our ability to fulfil our obligations in respect of contract liabilities is affected by the validity and availability of the intellectual property rights which we license to our customers. If we are not able to fulfil our obligations with respect to our contract liabilities, the amount of contract liabilities will not be recognised as revenue. As a result, our results of operations, liquidity and financial position may be materially and adversely affected.

Our business, financial condition and results of operations may be materially and adversely affected by seasonality

The demand for our products is subject to seasonal fluctuations and may affect our revenue. We typically experience higher sales for our e-commerce and other business in the fourth quarter of each year, particularly during major e-commerce campaigns such as the Double-Eleven and “Double-12 Day”. As to our character licensing business, we generally experience higher royalty income in the second half of each year. As such, our operating results during the aforesaid periods should not be taken as an indication of our performance for the entire financial year. Hence, prospective investors should be aware of these seasonal fluctuations when making any comparison of our operating results.

Increasing employee benefit expenses may adversely affect our profitability and thus have an adverse impact on our results of operations

Employee benefit expenses are one of our key operational costs and are expected to further increase to support our growing business. For the Track Record Period, our employee benefit expenses were approximately HK$42.9 million, HK$51.2 million, HK$42.3 million and HK$29.9 million, respectively, representing approximately 24.0%, 25.6%, 26.0% and 31.4% of our total operating expenses (comprising employee benefit expenses, depreciation and amortisation, promotion costs, online platform usage fee, cost of inventories sold and other expenses) for the respective periods.

Our in-house design capabilities are fundamental to the success of our business. In order to sustain our business growth, we intend to continue hiring and retaining talented employees such as designers, licensing managers and other personnel to grow our business. Hence, employee benefit expenses are expected to increase which may adversely affect our profitability and results of operations, and such impact might be further intensified by any adjustment of required payment for retirement benefit scheme, mandatory fund and social security funds. We may not be able to generate sufficient income to cover the increase in employee benefit expenses to maintain our competitiveness in the market. As a result, increase in employee benefit expenses may reduce our profitability and adversely affect our business, financial conditions and results of operations.

Our marketing efforts may not be successful

Our Directors believe that brand recognition is a key factor in consumers' purchasing decision, and our success relies on the popularity of our characters and the size of our fan base. We promote the characters by a variety of promotional and marketing activities to increase brand recognition, as well as to increase our presence in the markets. We interact on social media with consumers and B.Duck Fans, and collect feedback. During the Track Record Period, our promotion costs amounted to approximately HK$18.0 million, HK$20.7 million, HK$15.9 million and HK$8.1 million, respectively. We plan to further increase our marketing efforts to broaden the appeal of our character portfolio, which will lead to increased promotion costs. However, we cannot assure you that the efforts will be well received by consumers, effective and efficient in maintaining the appeal of our characters, and increase the licensing opportunities. If our marketing efforts are ineffective, or if we fail to attract more licensees, or if our promotion cost and operating cost grow faster than our sale, our business, financial conditions and results of operations may be adversely affected.

We might not be able to obtain licensing rights of popular character IP rights and might not be able to accurately assess their popularity

We obtained Licensed Characters from renowned international brand owners and licensors. We only obtain the Licensed Characters from brand owners that we believe to be of remarkable popularity and which, in our view, have great potential for commercial success. There is no assurance that there is an availability of popular character IP rights designed and/or owned by third parties which we can license, or that these character IP rights owners are willing to engage us as a licensing agent. We may also fail to accurately assess the popularity of the characters which our Group licenses and their potential for success. In addition, some of our existing licensing agreements of the Licensed Characters could be terminated by the licensors. There is no assurance that the licensing agreements would be renewed upon expiry. If any of these were to happen, the business, financial conditions and results of operations of our Group would be adversely affected.

There is no assurance that our business strategies and future plans will be successfully implemented

The successful implementation of our business strategies and future plans may be hindered by risks set out in this section and is subject to numerous factors, including but not limited to our ability to adapt to changing industry and market trends, the availability of management, design talents and financial resources, and our ability to retain our existing customers and attract new customers. As set out more details in "Future Plans and Use of Proceeds" in this Prospectus, we intend to, among other things, building our own fans platform and enhancing our brand image and awareness of our characters drive growth in existing character licensing business. We may fail to anticipate and adapt to the competitive conditions or change from time to time. Accordingly, we may not generate positive return or may even incur substantial loss or encounter unforeseen factors which may affect our financial performance. In addition, there is no assurance that we will be able to successfully implement our business strategies or future plans. Even if our business strategies or future plans are implemented, there is no assurance that we will be able to achieve our planned expansion and our business, growth, financial conditions and results of operations may be adversely affected.

Our historical financial information may not be indicative of our financial performance in the future

For the Track Record Period, our revenue amounted to approximately HK$200.9 million, HK$243.0 million, HK$233.5 million and HK$123.8 million, respectively, while our profit attributable to owners were approximately HK$9.9 million, HK$24.1 million, HK$54.5 million and HK$17.5 million, respectively. Our adjusted net profit under non-HKFRS financial measures were approximately HK$14.0 million, HK$32.9 million, HK$59.8 million and HK$25.6 million, respectively, for FY2018 to FY2020 and 6M2021.

However, the historical financial information of our Group is a mere analysis of our past performance only and does not have any positive implication or may not necessarily reflect our financial performance in the future which will depend on our capability to secure new business opportunities and to control our costs. Further, external factors may affect our development which will add uncertainty to our business. We may not be able to maintain our historical growth rate, revenue and profit margin in the future for various reasons, including but not limited to the economic conditions of Hong Kong and the PRC, the general industry trend, the behaviour of consumers, more intensified competition with industry players and failure in estimating and controlling costs. There is no assurance that we will be able to sustain and achieve the same level of business performance as we did during the Track Record Period or even better business performance in the future. Investors should not rely on our historical financial information as an indication of our future financial or operating performance.

We may require additional funding to support our continued business growth, which may not be available on terms acceptable to us, or at all

To support our continued business growth, we may consider to seek additional funding. We cannot assure you that we can obtain additional funds on terms acceptable to us, or at all. In addition, our ability to raise additional funds in the future is subject to a variety of uncertainties, including but not limited to:

- our future financial conditions, results of operations and cash flows;
- general market conditions affecting capital raising and debt financing activities; and
- economic, political and other conditions in the PRC and elsewhere.

If we raise additional funds by incurring debt obligations, apart from increasing interest expense and gearing, we may be subject to various covenants under the relevant debt instruments that may, among other things, restrict our ability to pay dividends or obtain additional financing. Fulfilling such debt obligations could also be burdensome to our operations. If we fail to fulfil such debt obligations or are unable to comply with any of these covenants, we could be in default under such debt obligations and our liquidity and financial conditions could be adversely affected.

We are uncertain about the recoverability of our deferred income tax assets, which may affect our financial positions in the future

As at 31 December 2018, 2019 and 2020, and 30 June 2021, our deferred income tax assets amounted to approximately HK$3.8 million, HK$3.0 million, HK$3.7 million and HK$3.7 million, respectively, which are recognised for tax loss carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. See note 17 to the Accountant's Report set out in Appendix I to this Prospectus for details of the movement of our deferred income tax assets. The recognition of deferred income tax assets requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered. We cannot guarantee the recoverability or predict the movement of our deferred tax assets, and to what extent they may affect our financial positions in the future.

Taxation authorities could challenge our allocation of taxable income which could increase our overall tax liability

During the Track Record Period, we carried out certain intra-group transactions in Hong Kong and the PRC. For character licensing business, Semk Products authorised Semk Licensing to grant the use of our character IP rights to third party licensees in the PRC and received licensing fee. Then, Semk Licensing paid royalty to Semk Products for its activities performed and value contribution to the whole operation. For e-commerce and other business, ENS Business provided design services for ENS Retailing in FY2018 and provided design service for ENS IT from FY2019 to 6M2021. Accordingly, ENS Business charged service fees to ENS Retailing in FY2018 and charged service fees to ENS IT from FY2019 to 6M2021 for its activities performed and value contribution to the whole operation. We have determined transfer prices that our Directors believe are comparable prices that would be charged by unrelated third parties dealing with each other on an arm's length basis. See "Business — Transfer Pricing Arrangement" in this Prospectus for more details. However, there can be no assurance that tax authorities reviewing such arrangements would agree that we are in compliance with transfer pricing regulations and guidance, or that such regulations and guidance will not be modified. The relevant tax authorities in the PRC and Hong Kong may make adjustment to the tax payable by our Group in respect of such transactions. This could result in a higher overall tax liability for us. In addition to reputation risks, we may also need to incur additional expenses and direct management resources to deal with the relevant tax authorities. This may adversely affect our business, financial conditions and results of operations.

The International Tax Cooperation (Economic Substance) Act (As Revised) of the Cayman Islands ("**ES Act**") may have an impact on our Company. Pursuant to the ES Act that came into force on 1 January 2019, a "relevant entity" carrying on any "relevant activity" is required to satisfy the economic substance test as set out in the ES Act. A "relevant entity" includes an exempted company incorporated in the Cayman Islands such as our Company; however, it does not include an entity that is a tax resident outside the Cayman Islands. Accordingly, as long as our Company is a tax resident outside the Cayman Islands, including in Hong Kong, we are not required to satisfy the economic substance test as set out in the ES Act. We cannot assure you that this legislation will not have an impact on our Company or our Group in the future.

We face certain risks relating to the properties leased by us in the PRC

As at the Latest Practicable Date, we had 12 leased properties in the PRC. See "Business — Properties" in this Prospectus for more details. Among which, the landlord of our five leased properties had not provided us with the relevant title ownership certificates to lease such properties and the relevant lease agreements may be deemed invalid, and as a result we may be forced to move out of the relevant leased properties. In such event, we may be unable to find suitable alternative premises or may be unable to obtain new leases at desirable locations or on desirable terms. Further, we may incur additional costs arising from the relocation as well as business disruption. If we are unable to find suitable alternative premises or obtain new leases at desirable locations or on desirable terms in the event that we are required to vacate from such properties, our business operation may be disrupted. This will have an adverse effect on our business, financial conditions and results of operations.

Our insurance policies may be insufficient to cover potential losses arising as a result of business interruption, damage to our property or third party liabilities

Historically, we have purchased employee related insurance. See "Business — Insurance" in this Prospectus for further details. We do not maintain insurance to cover liabilities with respect to our brand or losses, as a result of business interruptions or defaults by third parties. There can be no assurance that our insurance policies will be sufficient to cover all losses or liabilities. If our insurance policies are insufficient to cover our losses or liabilities, there may be a material adverse effect on our business, financial conditions and results of operations.

Privacy concerns relating to our future business development which may damage our reputation and deter potential platform users and customers from using our fans platform

To further develop our business, we intend to engage a third party developer for establishing a brand new and unified fans platform in the form of a WeChat mini programme as one of our business strategies in the future with an aim to gather our B.Duck Fans scattered over various channels and enhance the stickiness of our fans. Through this proposed platform, we may collect personal data from the platform users in order to better understand our B.Duck Fans and their needs. See "Business — Our Strategies — Establishing our "Fans Platform"" in this Prospectus for details.

Concerns about the collection, use, disclosure or security of personal information or other privacy-related matters, even if unfounded, may damage our reputation and adversely affect our results of operations. Many jurisdictions, including China, have implemented various laws and regulations to monitor the personal data and privacy protection. See "Regulatory Overview — PRC Laws and Regulations — (G) Regulations relating to Personal Data or Privacy Protection" in this Prospectus for details. The PRC governmental authorities are also continuing to consider the need for stricter control or reform to the existing regulatory framework. For example, on 20 August 2021, the Standing Committee of the National People's Congress issued the Personal Information Protection Law of the PRC* (《中華人民共和國個人信息保護法》), which has become effective from 1 November 2021. The Personal Information Protection Law of the PRC sets forth detailed rules on handling personal information and legal responsibilities.

We will strive to comply with applicable data protection laws and regulations, and other obligations we may have with respect to privacy and data protection. Any failure or perceived failure to comply with these laws, regulations or policies, or any system failure or compromise of the security of our proposed platform that results in the unauthorised access to or release of our platform users' data may result in enquiries and other proceedings or actions against us by governmental authorities or the platform users, as well as negative publicity and damage to our reputation and brand, each of which could have an adverse effect on our business and results of operations. The risk that these types of events could seriously harm our business is likely to increase as the size of our platform user base grows.

Furthermore, the PRC governmental authorities may promulgate new laws and regulations regulating personal data and privacy protection. Our practices may become inconsistent with such new laws or regulations, or the interpretation and application of existing laws or regulations, which is often uncertain and in flux. If so, in addition to the possibility of fines, we may be required to make further adjustments to our business practices so as to comply with the enacted laws and regulations. We cannot assure you that the relevant regulators will not interpret or implement the laws or regulations in ways that negatively affect us. Such changes to our business practices may incur additional costs as well. Failure or perceived failure to comply with applicable laws and regulations related to the collection, use, or sharing of personal information or other privacy-related and security matters could result in a loss of confidence in us by customers and the platform users, which could adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE INDUSTRY IN WHICH OUR GROUP OPERATES

Our Group operates in a highly competitive industry

Our Group operates in a highly competitive industry. Competitors in the HK–China character licensing market include both large established international corporations and smaller licensors. Increased competition may lead to a substantial increase of advertising and promotional activities among the competitors, or predatory pricing behaviour. In addition, if the existing or future competitors offer items that are better priced or more appealing to end users' tastes, the end-consumers of our Group may be diverted. In order to remain competitive, we may be forced to invoke more resources in advertising and promotional activities, make price reductions or suffer a loss in market share which would materially and adversely affect the business, financial conditions, and results of operations and growth prospects of our Group.

General macroeconomic conditions, particularly in Hong Kong and the PRC, may materially and adversely affect our Group's business, prospects, financial conditions and results of operations

Our business and operations are currently substantially based in Hong Kong and the PRC and the businesses of the majority of our customers are directly affected by the overall performance of the economy of Hong Kong and the PRC. As an open economy, Hong Kong's economy is influenced by the global economy and the PRC economy. The global, the PRC and Hong Kong economies are affected by, among other things, legal and regulatory changes, political conditions in global markets, global levels of liquidity and risk aversion, currency and interest rate fluctuations, concerns about natural disasters, terrorism and war, level and volatility of interest rates and exchange rates, concerns over inflation, and changes in investor confidence levels. All of these factors are beyond the control of our Group. If any of the above factors changes unfavourably, our Group's business, prospects, financial conditions and results of operations may be materially and adversely affected.

RISKS RELATING TO DOING BUSINESS WHERE WE OPERATE

The state of the economy and social and political environment in Hong Kong may impact our performance and financial conditions

Our Group's business and operations are currently substantially based in Hong Kong and the PRC. Any major changes to Hong Kong's economic, social and political landscape will impact on our business. If there is a downturn in the economy of Hong Kong, our results of operations and financial position may be adversely affected. In addition to economic factors, social unrest or civil movements such as occupation activities and protests may also affect the state of economy in Hong Kong and in such case, our operations and financial position may also be adversely affected. Hong Kong is a special administrative region of the PRC. It enjoys a high degree of autonomy and executive powers under the principle of "one country, two systems" in accordance with the Basic Law. A high level of autonomy is expected to be maintained as currently in place. However, there is no assurance that the economic, political and legal developments in Hong Kong will not be adversely affected as a result of the exercise of sovereignty by the PRC over Hong Kong. Recently, Hong Kong has witnessed an increasing number of protests and social demonstrations. There is also no assurance that Hong Kong will not experience any adverse economic, political or regulatory conditions due to events beyond our control, such as local economic downturn, natural disasters, contagious disease outbreaks, terrorist attacks, or if the government adopts regulations that place restrictions or burdens on our major clients or on our industry in general. Any such economic, political and social instability, if significant and prolonged, could have a material adverse effect on our business, financial conditions, results of operations and prospects.

Changes in the PRC's economic, political and social conditions, as well as government policies, could affect our business and prospects

A substantial part of our operations is located in the PRC and a substantial part of our revenue is derived from our operations in the PRC. Therefore, our business, results of operations, financial conditions and prospects are, to a significant extent, subject to the economic, political and social conditions and government policies in the PRC. The economy of the PRC differs from the economies of the most developed countries in many aspects, including but not limited to (i) the degree of government involvement; (ii) the growth rate and degree of development; (iii) control of foreign exchange; and (iv) allocation of resources.

The PRC's economy is used to be a planned economy, and a substantial portion of productive assets in the PRC are still owned by the PRC government. The PRC government also exercises substantial control over the PRC's economic growth by allocating resources, setting monetary policies and providing preferential treatment to particular industries or companies. While the PRC government has implemented economic reform measures to introduce market forces and to establish sound corporate governance in business enterprises, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. Hence, we cannot assure you that we may be able to benefit from all, or any, of the measures which are under constant adjustments.

Uncertainties regarding interpretation and enforcement of the PRC laws and regulations may impose adverse impact on us

China is the major market of our business. The character licensing industry in China is subject to various laws and regulations. Any change in the scope or application of these laws, regulations or approvals, however, may limit our ability to conduct our businesses, increase our costs, or increase competition and could have a material adverse effect on our financial results. In addition, complying with such laws and regulations may give rise to unexpected compliance costs that could have an effect on our financial conditions and results of operations. Failure to comply with such laws and regulations could also result in fines, penalties or lawsuits.

In particular, PRC laws and regulations concerning the character branding industry and IP aspect are developing and evolving. Although we have taken measures to comply with the laws and regulations that are applicable to our business operations and avoid conducting any non-compliant activities under the applicable laws and regulations, the PRC governmental authorities may promulgate new laws and regulations regulating the character branding industry and IP rights in the future. We cannot assure you that our practice would not be deemed to violate any new PRC laws or regulations relating to the character branding business.

Furthermore, the PRC legal system is based on written statutes and prior court decisions have limited value as precedents on the interpretation, implementation and enforcement of the PRC laws and regulations. As such, the outcome of dispute resolutions may not be consistent or predictable as in other more developed jurisdictions and it may be difficult to obtain swift or equitable enforcement under the PRC laws, or to obtain enforcement of judgement by a court of another jurisdiction.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Such uncertainties, including uncertainties over the scope and effect of our contractual, property (including IP) and procedural rights, could materially and adversely affect our business and impede our ability to continue our operations.

The PRC governmental authorities may promulgate new laws and regulations on live streaming sales and live streaming hosts, which may adversely affect our business operations

We intend to strengthen our new economy online sales channels through expanding our live streaming sales on e-commerce platforms. Yet, the PRC regulatory regime with regards to live streaming sales, in particular the live streaming hosts, such as KOLs, is still evolving. The PRC governmental authorities have been increasingly focused on regulations concerning live streaming sales activities and the hosts. For example, the Administrative Measures for Livestreaming Market (for Trial Implementation)* (網絡直播營銷管理辦法(試行)) was promulgated in April 2021 and became effective in May 2021. For more details, please refer to "Business — Our e-commerce and other business — Online sales channels — Live streaming sales" in this Prospectus.

As the regulatory regime in relation to live streaming sales is subject to changes, we may be required to make adjustments to our business practices in the future. Further, we cannot assure you that the relevant regulatory authorities will not interpret or implement the laws and/or regulations in ways that negatively affect us. PRC governmental authorities may promulgate new laws and regulations in this regard, which may increase our compliance costs and subject us to heightened risks and challenges associated with our live streaming sales. If we are unable to manage these risks, we may be subject to penalties and fines, and our results of operations could be materially and adversely affected.

Fluctuation of RMB could materially affect our financial conditions and results of operations

The exchange rates of the RMB against the HK$ and other foreign currencies fluctuate and are affected by, among other things, the policies of the PRC government and changes in the PRC's and international political and economic conditions. Our Group recorded net foreign exchange losses of approximately HK$1.3 million and HK$0.5 million and net foreign exchange gains of approximately HK$3.4 million and HK$0.3 million for FY2018 to FY2020 and 6M2021, respectively. The losses/gains were mainly attributable to the depreciation or appreciation of RMB against HK$. See note 3.1(i)(a) to the Accountant's Report as set out in Appendix I to this Prospectus for further details of our foreign exchange exposure. Any future exchange rate volatility relating to the RMB may lead to uncertainties in the value of our net assets, earnings and dividends. The net proceeds from the Global Offering will be denominated in HK$. Fluctuations in exchange rates, primarily those involving the HK$, may affect the relative purchasing power of these proceeds. Moreover, fluctuation in the exchange rate will affect the relative value of earnings from and the value of any foreign currency-denominated investments our Company make in the future. Any appreciation of the RMB against the HK$ or any other foreign currencies may result in a decrease in the value of the foreign currency-denominated assets.

Payment of dividends is subject to restrictions under the PRC law

As our Company is a holding company, we rely on dividends from our subsidiaries in the PRC for cash requirements, including repayment of any debts our Group may incur. Under the current PRC law, dividends may be paid only out of our PRC subsidiaries' accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Moreover, each of our PRC subsidiaries is required to set aside a certain amount of its after-tax profits each year, if any, to fund certain statutory reserves. These reserves are not distributable as cash dividends. In addition, in the future, if any of our PRC subsidiaries incurs debt on its own behalf, the instruments governing the debt may impose restrictions on its ability to pay dividends or make other payments to our Company. The inability of our PRC subsidiaries to distribute dividends or other payments to our Company could significantly affect the amount of capital available to supply the development and growth of our business.

Government control of foreign currencies may limit our foreign exchange transactions, including dividend payments to our Company's shareholders in foreign currencies

The RMB generally cannot be freely converted into any foreign currencies. As a significant amount of our revenue was generated from the PRC during the Track Record Period, a portion of our cash may be required to be converted into other currencies in order to meet our foreign currency needs, including cash payment on declared dividends and expansion in overseas markets. Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange or the SAFE, subject to certain procedures. Hence, our PRC subsidiaries are able to pay dividends in foreign currencies to our Company without prior approval from the SAFE by satisfying certain procedural requirements. However, there is no assurance that the foreign exchange policies regarding payment of dividends in foreign currencies will continue.

Moreover, foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to limitations and require prior approval of or shall be registered with the SAFE. The PRC government may further implement rules and regulations in the future, which could restrict the use of foreign currency under current account and capital account in certain circumstances. These restrictions could affect our ability to obtain foreign currency through debt financing, or to obtain foreign exchange needed for our capital expenditure, and could materially and adversely affect our business, financial conditions and results of operations.

Inflation in the PRC in general may increase our cost of operations

Part of our operation is in the PRC. While the PRC economy has experienced rapid growth, such growth has been accompanied by periods of high inflation. In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Nevertheless, the effects of the stimulus measures implemented by the PRC government since the global economic crisis in 2008 may have contributed to the occurrence of, and continue increase in, inflation in the PRC. If such inflation is allowed to proceed without mitigating measures by the PRC government, our operational costs will likely increase, and our profitability may be materially reduced, as there is no assurance that we will be able to pass any cost increases onto our customers. If the PRC government implements new measures to control inflation, these measures may lead to a slower economic growth. A slowdown in the PRC economy may have a material adverse effect on our business, results of operations, financial conditions and prospects.

We are subject to other risks by operating in SEA and South Korea

Our existing and future operations in SEA and South Korea are subject to the laws and regulations, government policies and economic, social and political conditions of those jurisdictions. We are exposed to a number of additional risks by operating in SEA and South Korea, which include but not limited to:

- reduced IP protections;

- difficulty in enforcing agreements, collecting receivables and protecting assets;

- unexpected changes in laws and regulations (or the interpretations thereof), government policies, trade or monetary or fiscal policies or health or work safety regulations in relation to, among other things, interest rates, foreign investment, company organisation, management, business, tax and trade;

- fluctuation in the exchange rates of SEA currencies and South Korea won against the US$ and other foreign currencies and inflation rates;

- social plans that prohibit or increase the cost of certain restructuring actions;

- tariffs, quotas, customs and other import or export restrictions and other trade barriers;

- limitations on repatriation of earnings;

- withholding or other taxes on remittances and other payments by subsidiaries, or industry-specific taxes and fees;

- investment restrictions or requirements;
- violence and civil unrest;
- changing labour conditions and difficulty in staffing our international operations;
- legal and regulatory differences and the burdens and costs of our compliance with a variety of foreign laws;
- increases in taxes which we are obliged to pay and other differences in applicable tax laws; and
- political events, domestic or international acts of terrorism and hostilities, regional conflicts or complications due to natural or nuclear disasters.

These uncertainties could have a material adverse effect on our business, results of operations and financial conditions.

RISKS RELATING TO THE GLOBAL OFFERING

Termination of the Hong Kong Underwriting Agreement

Prospective investors should note that the Sole Representative (for itself and on behalf of the other Hong Kong Underwriters) are entitled to terminate the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement by giving written notice to us upon the occurrence of any of the events set out in "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" in this Prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such event may include, without limitation, acts of government or orders of any courts, labour disputes, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), declaration of a national or international emergency, riots, public disorder, economic sanctions, outbreaks of diseases or epidemics.

There has been no public market for the Shares prior to the Listing and therefore the market price and trading volume of the Shares following the Listing may be volatile

The Offer Price will be the result of negotiations between the Sole Representative (for itself and on behalf of the Underwriters) and our Company. The Offer Price may be lower or higher than the market price after the commencement of trading of the Shares on the Stock Exchange. Following the Listing, it is possible that the Share price will fluctuate and may not always accurately reflect the underlying value of our Group's business. The value of the Shares may fluctuate and investors may realise less or more than the original sum invested. The price that investors may realise for their holdings in our Company may be influenced by a large number of factors including but not limited to investor perceptions of our Group and our future plans and prospects, variations in the operating results of our Group, changes in our Group's key and senior management, and general political and economic conditions and other factors.

There has been no public market for the Shares prior to the Listing. It is uncertain at present what level of interest will be attracted from investors and accordingly what level of trading volume in the Shares can be expected.

Additional equity fund raising may lead to dilution of shareholders' interests and decrease in market price of the Shares

We may find opportunities to grow through acquisitions that cannot currently be anticipated. Secondary issue(s) of securities after the Global Offering may be necessary to raise the required capital to capture these growth opportunities. If additional funds are raised by issuing new equity securities in the future to new and/or existing Shareholders after the Listing, such new Shares may be priced at a discount to the then prevailing market price. If existing Shareholders are not offered an opportunity to participate, their shareholding interest in our Company will be diluted.

Also, if we fail to utilise the additional funds to generate the expected earnings, this could adversely affect our financial results and in turn exerts pressure to the market price of our Shares.

Our Company will continue to be ultimately controlled by our Controlling Shareholders, whose interests may differ from other Shareholders' interests

As at the Latest Practicable Date, our Controlling Shareholders held approximately 75.36% of the issued share capital of our Company, and the Controlling Shareholders will own approximately 66.32% of the enlarged issued share capital of our Company upon completion of the Global Offering. Accordingly, Mr. Hui through his capacity as a Director and through his shareholding, will have substantial influence over the business, including overall strategies of our Group, adjustment to our Group's capital structure, election of Directors, the timing and amount of dividend payments and other significant corporate actions. If the interests of Mr. Hui conflict with the interests of other Shareholders, those other Shareholders' interests may be prejudiced as a result.

Shares held by our Controlling Shareholders are subject to certain lock-up periods after the date on which trading in the Shares commences on the Stock Exchange, details of which are set out in "Underwriting" in this Prospectus. After such lock-up expires, our Controlling Shareholders may dispose of Shares. Sales of substantial amount of the Shares in the public market or otherwise, or the perception that these sales may occur, may materially and adversely affect the market price of the Shares.

Future sale of the Shares or major divestment of the Shares by our Controlling Shareholders or substantial shareholders of our Company may cause Share price to fall

The sale of a significant number of Shares by our Controlling Shareholders or substantial shareholders in the public market after the Listing, or the perception that such sale may occur, could adversely affect the market price of the Shares. Except as otherwise described in "Underwriting" in this Prospectus and the restrictions set out by the Listing Rules, there are no restrictions imposed on our Controlling Shareholders or substantial shareholders of our Company to dispose of their shareholdings. Any major disposal of Shares by any of our Controlling Shareholders or substantial shareholders of our Company may cause the market price of the Shares to fall. In addition, these disposals may make it more difficult for our Group to issue new Shares in the future at a time and price that our Directors deem appropriate, thereby limiting our ability to raise capital.

There may be dilution because of the issuance of Shares pursuant to the options which may be granted under the Share Option Scheme

We may grant share options to eligible participants under the Share Option Scheme, who may be employees, senior management and Directors. The exercise of share options under the Share Option Scheme will result in an increase in the number of Shares, and may result in a dilution to the percentage of ownership of the shareholders of our Company, the earnings per Share and net asset value per Share depending on the exercise price. See "Statutory and General Information — D. Other Information — 15. Share Option Scheme" in Appendix IV to this Prospectus for details of the Share Option Scheme.

Historical dividends are not indicative of our Group's future dividends

During the year ended 31 December 2018, Semk International effected payment of dividends of approximately HK$10.0 million, which were declared by it during the year ended 31 December 2017, that is, prior to the Track Record Period. For the years ended 31 December 2019 and 2020, dividends of approximately HK$15.0 million and HK$15.0 million, respectively, were declared by Semk International for distribution to its then shareholders. In addition, for the six months ended 30 June 2021, Semk International and ENS Holdings declared dividends of approximately HK$24.1 million and HK$3.4 million to Semk Cayman and ENS International, respectively, for settlement of Semk Cayman's and ENS International's considerations payable for their respective repurchase of shares from OJ VC pursuant to the Reorganisation. All the dividends declared by our Group during the Track Record Period had been fully settled as at the Latest Practicable Date. On 13 September 2021, our Company further declared dividends in the amount of approximately HK$27.0 million out of our retained earnings. The value of dividends declared and paid in previous years should not be relied on by potential investors as a guide to the future dividend policy of our Group or as a reference or basis to determine the amount of dividends payable in the future. There is no assurance that dividends will be declared or paid in the future, at a similar level or at all. Our future declarations of dividends will be subject to, among other things, the discretion of our Board. Any distributable profits that are not distributed in any given year may be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. In any event, there can be no assurance that we will be able to declare or distribute any dividend.

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

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

The laws of the Cayman Islands for minority shareholders' protection differ somewhat from the laws of Hong Kong or other jurisdictions

The corporate affairs of our Group are governed by the Memorandum, the Articles, and by the Companies Act and the Companies Ordinance. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ in some aspects from those established under statutes and judicial precedent in existence in Hong Kong and other jurisdictions. The remedies available to our Company's minority shareholders may be different from those they would have under the laws of Hong Kong and other jurisdictions. See "Summary of the Constitution of the Company and Cayman Islands Companies Law — 3. Cayman Islands Companies Law and Taxation" in Appendix III to this Prospectus for further information.

RISKS ASSOCIATED WITH THIS PROSPECTUS

We cannot guarantee the accuracy of facts and other statistics with respect to certain information contained in this Prospectus

The information and statistics set out in the "Industry Overview" section and other sections of this Prospectus were extracted from different official government publications, available sources from public market research and other sources from independent suppliers, and from the independent industry report prepared by Frost & Sullivan.

We engaged Frost & Sullivan to prepare an independent industry report in connection with the Global Offering. The information from official government sources has not been independently verified by our Company, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters or any of our or their respective directors and advisers, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy. Accordingly, the information from official government sources contained herein may not be accurate and should not be unduly relied upon.

Forward-looking statements are subject to significant risks and uncertainties and should not be unduly relied upon

This Prospectus contains certain statements that are "forward-looking" and indicated by the use of forward-looking terminology such as "believe", "intend", "anticipate", "estimate", "plan", "potential", "will", "would", "may", "should", "expect", "seek" or similar terms. Prospective investors are cautioned that reliance on any forward-looking statement involves risk and uncertainties and that, even if our Directors believe the assumptions related to those forward looking statements are reasonable, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The risks and uncertainties in this regard consist of those identified in the risk factors discussed above. In light of these and other risks and uncertainties, the enclosure of forward-looking statements in this Prospectus should not be regarded as representations by our Company that the plans and objectives will be achieved, and investors should not place undue reliance on such statements. Our Company does not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events, or otherwise. See "Forward-looking Statements" in this Prospectus for further details.

Investors should not rely on any information contained in press articles or other media regarding our Group or the Global Offering

We wish to emphasise to prospective investors that we do not accept any responsibility for the accuracy or completeness of the information contained in any press articles or other media coverage regarding us or the Global Offering, and such information that was not sourced from or authorised by us. We make no representation to the appropriateness, accuracy, completeness or reliability of any information contained in any press articles or other media coverage about our business or financial projections, share valuation or other information. Accordingly, prospective investors should not rely on any such information and should rely only on information included in this Prospectus in making any decision as to whether to invest in our Shares.

WAIVER IN RESPECT OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

After the Listing, certain transactions, whereby our Group has entered into or will continue to conduct, will constitute non-exempt continuing connected transactions for our Company under the Listing Rules. These transactions are subject to reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules, and our Company has applied for waivers from compliance with the applicable requirements under Rule 14A.105 of Chapter 14A of the Listing Rules and the Stock Exchange has granted, a waiver from strict compliance with the announcement, circular and independent Shareholders' approval, requirements set forth in Chapter 14A of the Listing Rules for such non-exempt continuing connected transactions. Further information on such waiver is set forth in "Connected Transactions" in this Prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This Prospectus contains particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purposes of giving information to the public with regard to us. Our Directors (including any proposed director who is named as such in this Prospectus) collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in this Prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or in this Prospectus misleading.

OFFER SHARES ARE FULLY UNDERWRITTEN

This Prospectus is published solely in connection with the Global Offering and the Listing of the Offer Shares, which is sponsored by the Sole Sponsor. The Hong Kong Offer Shares are fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or around the Price Determination Date, subject to agreement on the Offer Price between the Sole Representative (for itself and on behalf of the Underwriters) and us. The Global Offering is managed by the Sole Representative. If, for any reason, the Offer Price is not agreed, the Global Offering will not proceed and will lapse. See "Underwriting" in this Prospectus for further information about the underwriting arrangements.

INFORMATION ON THE GLOBAL OFFERING

This Prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. The Global Offering comprises the Hong Kong Public Offering of initially 12,000,000 Offer Shares (subject to reallocation) and the International Offering of initially 108,000,000 Offer Shares (subject to reallocation and the Over-allotment Option). For applicants under the Hong Kong Public Offering, this Prospectus and the GREEN Application Form contain the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered for subscription solely on the basis of the information contained and the representations made in this Prospectus and subject to the conditions set out herein and therein. No person is authorised in connection with the Global Offering to give any information, or to make any representation, not contained in this Prospectus. Any information or representation not contained herein shall not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators and Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents, representatives or any other person or party involved in the Global Offering.

Neither the delivery of this Prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this Prospectus or imply that the information contained in this Prospectus is correct as at any date subsequent to the date of this Prospectus.

See "Structure of the Global Offering" in this Prospectus for details of the structure of the Global Offering, including its conditions.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm or by his/her/its acquisition of the Offer Shares will be deemed to confirm that he/she/it is aware of the restrictions on the offer of the Offer Shares described in this Prospectus.

No action has been taken in any jurisdiction other than Hong Kong to permit an offer or the general distribution of this Prospectus. Accordingly, this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in relation to the Global Offering in any jurisdiction or, in any circumstance in which such an offer or invitation is not authorised, or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this Prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under any applicable laws, rules and regulations of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities as an exemption therefrom. In particular, the Hong Kong Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

The Global Offering is made solely on the basis of the information contained and representations made in this Prospectus. No person is authorised in connection with the Global Offering to give any information, or to make any representation, not contained in this Prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, and any of their respective directors or affiliates of any of them or any other person and party involved in the Global Offering.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this Prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, being up to 10% of the Shares in issue on the Listing Date, on the Stock Exchange. No part of the share or loan capital of our Company is listed or dealt in on any other stock exchange and no such listing or permission of dealing is being or is proposed to be sought.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the permission for the Shares offered under this Prospectus to be listed on the Stock Exchange has been refused before the expiration of three weeks from the date of the closing of the Global Offering or such longer period not exceeding six weeks as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this Prospectus shall, whenever made, be void. The Shares are freely transferable. Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on the Stock Exchange unless the Stock Exchange otherwise agrees.

OVER-ALLOTMENT OPTION AND STABILISATION

See "Structure of the Global Offering" in this Prospectus for details of the arrangements relating to the Over-allotment Option and stabilisation. Assuming that the Over-allotment Option is exercised in full, our Company may be required to allot and issue up to an aggregate of 18,000,000 additional new Shares.

COMMENCEMENT OF DEALING IN THE SHARES

Assuming that the Global Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, 17 January 2022, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Monday, 17 January 2022. The Shares will be traded in board lots of 1,000 Shares each. The stock code of the Shares is 2250.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors for the Offer Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, purchase, holding or disposal of, dealings in, or exercise of any rights in relation to the Shares. It is emphasised that none of our Company, our Directors, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents, representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to our Shares.

REGISTER OF MEMBERS AND STAMP DUTY

All the Offer Shares will be registered on our Company's branch register of members to be maintained in Hong Kong by our Company's branch share registrar and transfer office, Boardroom Share Registrars (HK) Limited at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong. Our Company's principal register of members will be maintained in the Cayman Islands by our Company's principal share registrar and transfer office in the Cayman Islands. Only Shares registered on our Company's branch register of members maintained in Hong Kong may be traded on the Stock Exchange, unless the Stock Exchange otherwise agrees. Dealings in the Shares registered on our Company's branch register of members maintained in Hong Kong will be subject to the Hong Kong stamp duty.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second settlement day after any trading day.

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

All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional advisers.

LANGUAGE

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

EXCHANGE RATE CONVERSION

Unless otherwise specified, conversion of RMB or US$ into HK$ in this Prospectus is based on the following exchange rates (for illustration purposes only): HK$1.00 = RMB0.85 or HK$7.75 = US$1.00. No representation is made that any amounts in RMB or US$ were or could have been or could be converted into HK dollars or US$ at such rates or any other exchange rates on such date or any other date.

ROUNDING

Certain amounts and percentage figures included in this document have been subject to rounding adjustments, or have been rounded to a set number of decimal places. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table, chart or elsewhere between totals and sums of amounts listed therein are due to rounding.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Hui Ha Lam (許夏林)	House 12, Meister House 1 Fairview Park Boulevard Yuen Long New Territories Hong Kong	Chinese
Mr. Kwok Chun Kit (郭振傑)	Flat F, 20/F, Block 2 Hong Lai Garden 153 Tuen Mun Heung Sze Wui Road New Territories Hong Kong	Chinese
Mr. Cheung Chin Yiu (張展耀)	Flat D, 8/F, Tower 6 Century Gateway 83 Tuen Mun Heung Sze Wui Road Tuen Mun New Territories Hong Kong	Chinese
Mr. Tse Tsz Leong (謝子亮)	Flat A, 3/F, Block 7 Yuet Wu Villa Tuen Mun New Territories Hong Kong	Chinese
Non-executive Directors		
Mr. Wong Yin Shun Vincent (王賢訊)	1A, 34–36, Oxford Road Kowloon Tong Hong Kong	Chinese
Mr. Chen Hongjiang (陳洪江)	A-12B Yanqilou, Overseas Chinese City Nanshan District Shenzhen Guangdong Province People's Republic of China	Chinese

Name	Address	Nationality
Independent non-executive Directors		
Ms. Leung Ping Fun Anita (梁丙焄)	Flat A, 23/F, Amber Garden 70–72 Kennedy Road Wan Chai Hong Kong	Chinese
Mr. Sung Chi Keung (宋治強)	Unit A, 31/F, Tower 7 98 Tai Ho Road, Parc City Tsuen Wan New Territories Hong Kong	Chinese
Dr. Chan Kai Yue Jason, *MH, JP* (陳繼宇)	Flat 9, 17/F, Block B Kornhill, 25–27 Hong Shing Street Quarry Bay Hong Kong	Chinese

Further information of our Directors are disclosed in "Directors and Senior Management" in this Prospectus.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	:	**China Everbright Capital Limited** 12/F, Everbright Centre 108 Gloucester Road Wan Chai Hong Kong
Sole Representative	:	**China Everbright Securities (HK) Limited** 12/F, Everbright Centre 108 Gloucester Road Wan Chai Hong Kong
Joint Global Coordinators	:	**China Everbright Securities (HK) Limited** 12/F, Everbright Centre 108 Gloucester Road Wan Chai Hong Kong

Grand China Securities Limited
Room 503, 5/F
Loke Yew Building
50-52 Queen's Road Central
Central
Hong Kong

UOB Kay Hian (Hong Kong) Limited
6/F, Harcourt House
39 Gloucester Road
Hong Kong

Joint Bookrunners :

China Everbright Securities (HK) Limited
12/F, Everbright Centre
108 Gloucester Road
Wan Chai
Hong Kong

BOCOM International Securities Limited
9/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

CMBC Securities Company Limited
45/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

Fosun Hani Securities Limited
Suite 2101-2105, 21/F
Champion Tower
3 Garden Road
Central
Hong Kong

Grand China Securities Limited
Room 503, 5/F
Loke Yew Building
50-52 Queen's Road Central
Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
26/F-28/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

UOB Kay Hian (Hong Kong) Limited
6/F, Harcourt House
39 Gloucester Road
Hong Kong

Zhongtai International Securities Limited
7/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Joint Lead Managers : **China Everbright Securities (HK) Limited**
12/F, Everbright Centre
108 Gloucester Road
Wan Chai
Hong Kong

BOCOM International Securities Limited
9/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

CMBC Securities Company Limited
45/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

Fosun Hani Securities Limited
Suite 2101-2105, 21/F
Champion Tower
3 Garden Road
Central
Hong Kong

Grand China Securities Limited
Room 503, 5/F
Loke Yew Building
50-52 Queen's Road Central
Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
26/F-28/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

UOB Kay Hian (Hong Kong) Limited
6/F, Harcourt House
39 Gloucester Road
Hong Kong

Zhongtai International Securities Limited
7/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Co-Lead Managers : **First Shanghai Securities Limited**
19/F
Wing On House
71 Des Voeux Road Central
Hong Kong

Innovax Securities Limited
Unit A-C, 20/F
Neich Tower
128 Gloucester Road
Wan Chai
Hong Kong

Livermore Holdings Limited
Unit 1214A, 12/F
Tower II Cheung Sha Wan Plaza
833 Cheung Sha Wan Road
Kowloon
Hong Kong

Maxa Capital Limited
Unit 1908
Harbour Center
25 Harbour Road
Wanchai
Hong Kong

uSmart Securities Limited
Unit 2606-07, 26/F
FWD Financial Centre
308 Des Voeux Road Central
Hong Kong

Zhong Jia Securities Limited
Unit D – F, 15/F
Neich Tower
128 Gloucester Road
Wan Chai
Hong Kong

Legal advisers to the Company : *As to Hong Kong laws:*

Jingtian & Gongcheng LLP
Suite 3203–3207, 32/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC laws:

Beijing Zhong Lun Law Firm (Shenzhen Office)
8-10/F, Tower A
Rongchao Tower
6003 Yitian Road
Futian District
Shenzhen 518026
The PRC

As to PRC IP laws:

Guangdong Team Source Law Firm
Unit 01-08, 28/F, North Tower
Polyway Tower
No. 11-2 Xiancun Road
Tianhe District
Guangzhou 510630
The PRC

As to Hong Kong IP Laws:

Hogan Lovells
11th Floor
One Pacific Place
88 Queensway
Hong Kong

As to Cayman Islands and BVI laws:

Maples and Calder (Hong Kong) LLP
26th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

As to Hong Kong laws in respect of certain litigation matters:

Chungs Lawyers in association with
DeHeng Law Offices
28/F, Henley Building
5 Queen's Road Central
Hong Kong

Legal advisers to the Sole Sponsor and the Underwriters :

As to Hong Kong laws:

Eric Chow & Co. in Association with
Commerce & Finance Law Offices
29/F, 238 Des Voeux Road Central
Hong Kong

As to PRC laws:

Commerce & Finance Law Offices
12-14/F, China World Office 2
No. 1 Jianguomenwai Avenue
Chaoyang District
Beijing
PRC

Auditor and reporting accountant	:	**PricewaterhouseCoopers** *Certified Public Accountants* *Registered Public Interest Entity Auditor* 22/F, Prince's Building Central, Hong Kong
Industry consultant	:	**Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.** Suite 2504 Wheelock Square 1717 Nanjing West Road Shanghai 200040 China
Tax Consultant	:	**PricewaterhouseCoopers Consultants (Shenzhen) Limited** 34/F, Tower A Kingkey100, 5016 Shennan East Road Luohu District Shenzhen 518001 China
Receiving banks	:	**DBS Bank (Hong Kong) Limited** 11/F The Center 99 Queen's Road Central Hong Kong **Standard Chartered Bank (Hong Kong) Limited** 18/F Standard Chartered Tower 388 Kwun Tong Road Kowloon, Hong Kong
Compliance adviser	:	**China Everbright Capital Limited** 12/F, Everbright Centre 108 Gloucester Road Wan Chai Hong Kong

Registered office in the Cayman Islands	:	PO Box 309 Ugland House Grand Cayman, KY1-1104 Cayman Islands
Headquarters and principal place of business in Hong Kong	:	Unit No. 2806 28/F, The Octagon 6 Sha Tsui Road Tsuen Wan New Territories Hong Kong
Company's website	:	**http://www.semk.net** *(information contained in this website does not form part of this Prospectus)*
Authorised representatives	:	Mr. Hui Ha Lam (許夏林) House 12, Meister House 1 Fairview Park Boulevard Yuen Long, New Territories Hong Kong Mr. Tse Tsz Leong (謝子亮) *(HKICPA)* Flat A, 3/F, Block 7 Yuet Wu Villa Tuen Mun, New Territories Hong Kong
Company secretary	:	Mr. Tse Tsz Leong (謝子亮) *(HKICPA)* Flat A, 3/F, Block 7 Yuet Wu Villa Tuen Mun, New Territories Hong Kong
Members of the Audit Committee	:	Mr. Sung Chi Keung (宋治強) *(chairman)* Ms. Leung Ping Fun Anita (梁丙焄) Dr. Chan Kai Yue Jason, *MH, JP* (陳繼宇)

Members of the Remuneration Committee	:	Ms. Leung Ping Fun Anita (梁丙焄) *(chairperson)* Mr. Hui Ha Lam (許夏林) Mr. Sung Chi Keung (宋治強)
Members of the Nomination Committee	:	Mr. Hui Ha Lam (許夏林) *(chairman)* Mr. Sung Chi Keung (宋治強) Dr. Chan Kai Yue Jason, *MH, JP* (陳繼宇)
Principal share registrar and transfer office in the Cayman islands	:	**Maples Fund Services (Cayman) Limited** P.O. Box 1093, Boundary Hall Cricket Square Grand Cayman, KY1-1102 Cayman Islands
Hong Kong branch share registrar and transfer office	:	**Boardroom Share Registrars (HK) Limited** 2103B, 21/F, 148 Electric Road North Point Hong Kong
Principal banker	:	**DBS Bank (Hong Kong) Limited** 11/F., The Center 99 Queen's Road Central Hong Kong **Nanyang Commercial Bank, Limited** 151 Des Voeux Road Central Hong Kong

The information contained in this section and elsewhere in this Prospectus have been derived from various official government publications, available sources from public market research and other sources from independent suppliers, and from the independent research report prepared by Frost & Sullivan. We engaged Frost & Sullivan to prepare an independent industry report in connection with the Global Offering. The information from official government sources has not been independently verified by our Company, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters or any of our or their respective directors and advisers, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy. Accordingly, the information from official government sources contained herein may not be accurate and should not be unduly relied upon.

SOURCE OF INFORMATION

We commissioned Frost & Sullivan, an independent market research and consulting firm, to conduct an analysis of, and to prepare a report on, licensing markets in China for the period from 2016 to 2025. We have agreed to pay a fee of RMB540,000 for the Frost & Sullivan Report, which we believe reflects market rates for reports of this type. Frost & Sullivan is an independent global market research and consulting firm founded in 1961 and based in the United States. It offers industry research and market strategies and provides growth consulting and corporate training.

In preparing the Frost & Sullivan Report, Frost & Sullivan has relied on the statistics and information obtained through primary and secondary research. Primary research includes interviewing industry insiders, competitors, downstream customers and recognised third-party industry associations, while secondary research includes reviewing corporate annual reports, databases of relevant official authorities, independent research reports and publications, as well as the exclusive database established by Frost & Sullivan over the past decades.

The forecasts were made by Frost & Sullivan based on the following assumptions:

- Government policies on the licensing industry in mainland China and Hong Kong will remain unchanged during the forecast period;

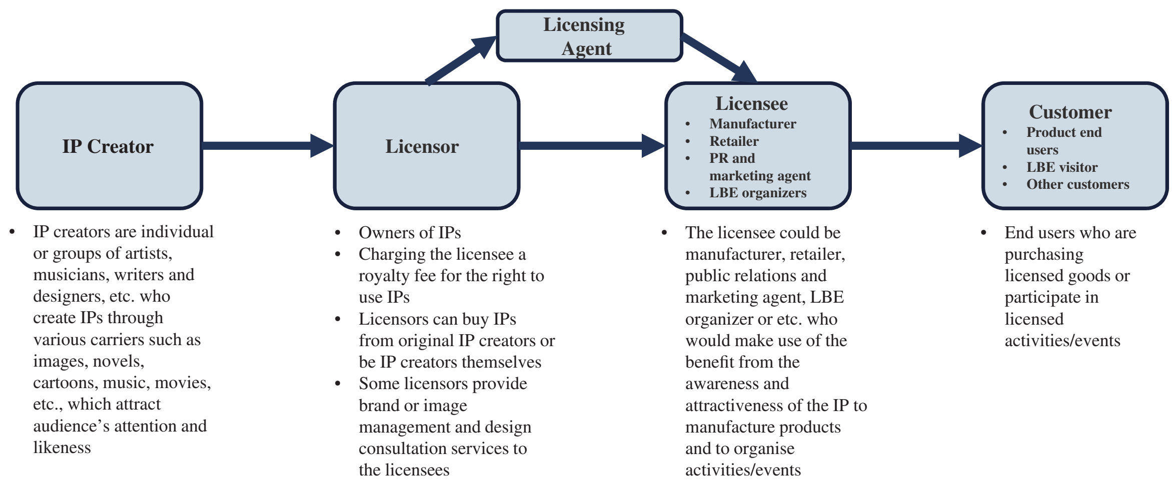
- The licensing industry in mainland China and Hong Kong will be continuously growing and driven by rising IP protection awareness and changing consumption habits, prosperity of the internet and e-commerce, increasing creative capability of original IP, etc.

Frost & Sullivan conducts research on market size, share and segmentation analyses, competitor tracking and corporate intelligence, etc. Some of the information extracted from the Frost & Sullivan Report are also referred to in "Summary", "Business" and "Financial Information" in this Prospectus. Our Directors confirm that, to the best of their knowledge, there is no adverse change in the market since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information in this section.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report, various official government publications and other publications.

VALUE CHAIN OF CHARACTER LICENSING

Licensing refers to the mechanism that the licensor or licensing agent authorises the licensee to use the IP rights by contracts and usually charge royalty as a proportion of sales of licensed goods or fixed fee over a time period. Licensors can directly contact with licensees, or licensing agents can work as the brokers between the licensors and licensees and monitor on behalf of licensors the usage of IPs by licensees. The major players in licensing market generally include IP creators, licensors, licensing agents and licensees. The following chart shows the value chain of licensing market:

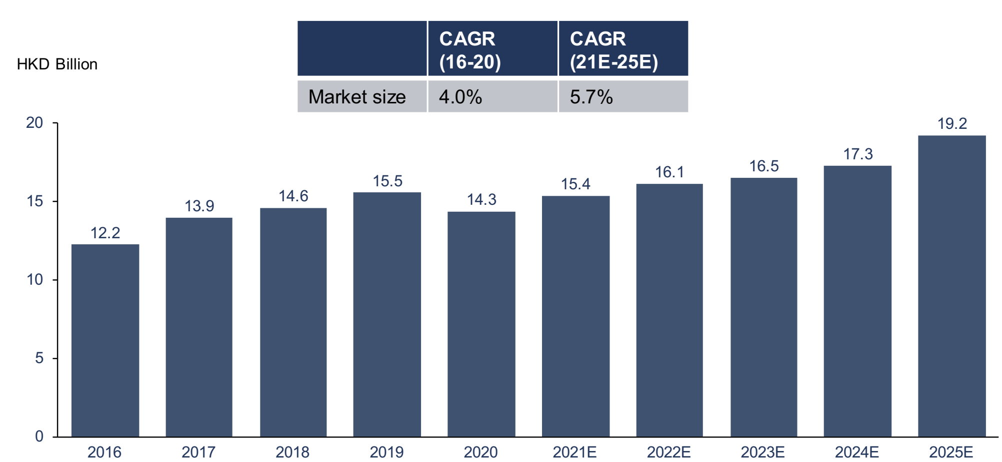


Source: *Frost & Sullivan*

CHARACTER LICENSING MARKET IN ASIA-PACIFIC

The total revenue of the character licensing market in the Asia-Pacific region is expected to rise from approximately HK$12.2 billion in 2016 to approximately HK$14.3 billion in 2020, representing a CAGR of approximately 4.0%. Character licensing market is expected to grow at a CAGR of approximately 5.7% from 2021 to 2025, achieving approximately HK$19.2 billion in 2025.

Market Size of Character Licensing Market (by Total Revenue*), APAC, 2016-2025E

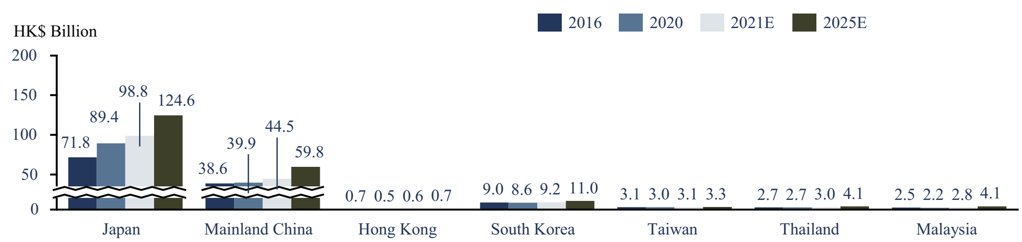


Source: *Frost & Sullivan*

* Total revenue includes royalty fees from granting licensees the right to use the character IP as well as other consulting and design fees charged during the course of licensing activities.

In recent years, character licensing industry in the Asia-Pacific region is developing at a fast pace, especially for regions like Japan, mainland China, Hong Kong, South Korea, Thailand, Malaysia and Taiwan. Driven by the emergence of a variety of popular IPs and successful cases of IP commercialisation in the above markets, such as the increasing popularity of trendy toys featured with character IPs in China and Asia market, the market demand for licensing products in the Asia-Pacific region remains strong, and hence the licensing industry in the Asia-Pacific region is expected to maintain a strong and continuous growth going forward. Set out below are the retail sales value of character licensed goods of selected Asia-Pacific countries and regions:

Retail Sales Value of Character Licensed Goods, Selected Asia Pacific Countries and Regions, 2016 & 2020 & 2021E & 2025E



CAGR 16-20	5.6%	0.8%	-4.9%	-1.1%	-0.9%	-0.3%	-2.8%
CAGR 21E-25E	6.0%	7.6%	4.3%	4.6%	1.3%	7.6%	10.7%

Source: *Frost & Sullivan*

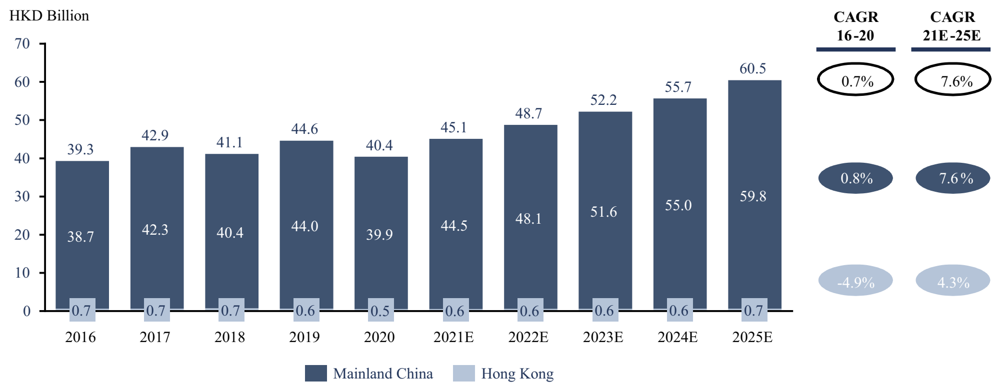
OVERVIEW OF CHARACTER LICENSING MARKET IN MAINLAND CHINA AND HONG KONG AS A WHOLE

The retail sales value of character licensed goods in mainland China and Hong Kong as a whole increased from approximately HK$39.3 billion in 2016 to approximately HK$40.4 billion in 2020 at a CAGR of approximately 0.7%.

In mainland China, the character licensed goods market had experienced rapid growth from 2016 to 2019. During this period, the growth of several leading character IPs such as Boonie Bears has raised public awareness of their brands via IP commercialisation. Compared to 2017, the retail sales value of character licensed goods shrank slightly in 2018. This is due to the funding pressure in China's film and TV industries since 2017, which is one of the main monetisation channels for character IPs. The IP creators and designers were less incentivised to create new IP characters and hence the number of new IPs created declined accordingly in 2018. In 2019, the market recovered as the aforementioned factor, i.e., the funding pressure in China's film and TV industries, no longer influenced the market. In 2020, the outbreak of COVID-19 led to a decrease in the retail sales value of the character licensed goods in mainland China. In the future, due to the increasing creative capability domestic IPs and consumers' rising awareness for IP protection, the retail sales value of character IP licensed goods is expected to grow rapidly at a CAGR of approximately 7.6% from 2021 to 2025, and reach approximately HK$59.8 billion in 2025 in mainland China.

In Hong Kong, the character licensed goods market was relatively stable between 2016 and 2019. Despite that, the character licensed goods market exhibited poor performance in 2020, given that the consumer goods market in general was severely hit by the outbreak of COVID-19. In the future, considering that the pandemic is gradually under control with the increasing vaccination rate and that the retail market in Hong Kong is recovering, the character licensed goods market in Hong Kong is anticipated to recover, albeit at a relatively slow pace.

Retail Sales Value of Character Licensed Goods, Mainland China and Hong Kong, 2016-2025E



Source: *Licensing International, Frost & Sullivan*

Market Size of Character Licensing Market by Total Revenue

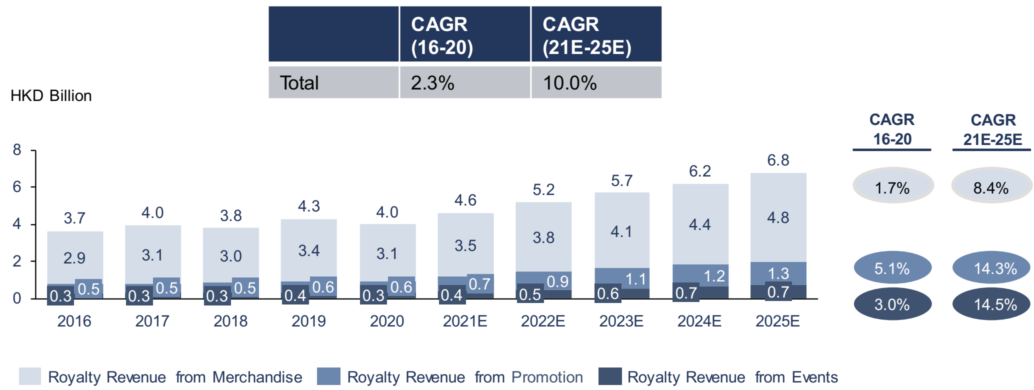
Regarding the character licensing market, royalty revenue generated from merchandise sales represents a substantial portion of the total revenue of the character licensing market in both mainland China and Hong Kong.

In mainland China, the licensed merchandise segment accounted for approximately 76.7% of the total revenue of the character licensing market, reaching approximately HK$3.1 billion in 2020. The slight decrease in royalty revenue generated from licensed merchandise sales in 2018 compared with 2017 was because of the drop in the retail sales revenue of character licensed goods as a whole in 2018, as a portion of retail sales revenue of character licensed goods is typically charged as royalty revenue. In 2019, the retail sales value of character licensed goods recovered, and the royalty revenue generated from merchandise sales increased accordingly. In 2020, the outbreak of COVID-19 dramatically disrupted the retail market, and as a subsegment of retail market, character licensed goods market declined as well. In addition, as theatres and cinemas were closed to maintain social distancing, the release of new films were postponed and the supply of new character IPs generated from new films was therefore limited. As a result, the royalty revenue generated from retail sales decreased in 2020 compared to that of 2019.

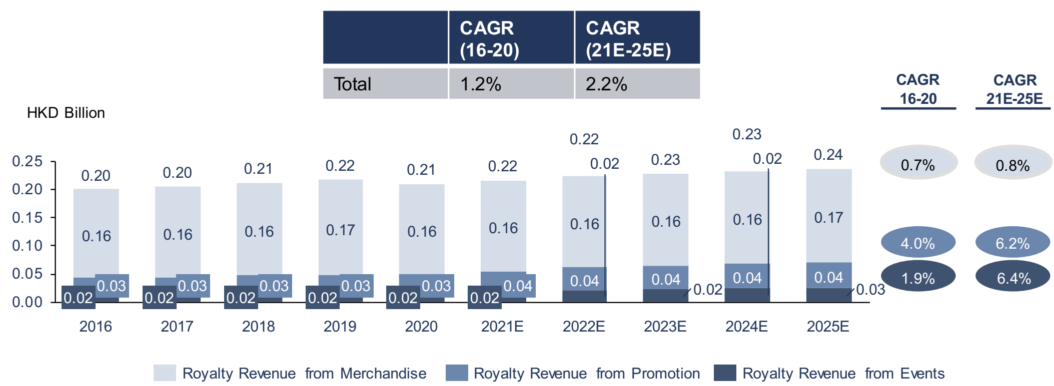
In Hong Kong, the royalty revenue generated from merchandise sales was relatively stable between 2016 and 2019, since whereas in 2020, the retail market was hit by the outbreak of COVID-19. The Hong Kong government has taken actions to prevent the further spread of COVID-19. As the COVID-19 pandemic being gradually contained with increasing vaccination rates in Hong Kong and many other countries, the travel restrictions worldwide are anticipated to be gradually lifted. Therefore, the retail market in Hong Kong is expected to exhibit gradual recovery. As a result, the retail sales value of character licensed goods in Hong Kong is expected to catch up slowly, and the royalty revenue generated from licensed merchandise sales is anticipated to return to the pre-pandemic level by 2023.

As for the royalty revenue from promotion and events, the royalty revenue generated from promotion and events in mainland China and Hong Kong experienced high growth rate of 5.1% and 4.0% CAGR from 2016 to 2020 respectively, and the royalty revenue generated from events in mainland China and Hong Kong grew at a CAGR of 3.0% and 1.9% from 2016 to 2020, respectively. This is due to the prevalence of interactive marketing in mainland China and Hong Kong in recent years. Interactive marketing, also known as event-based marketing, is a creative strategy to boost sales, where licensees could take a responsive approach to make connections with customers via the use of featured character IPs in their marketing campaigns, which further assisted the character IPs to gain popularity quickly while stimulating the revenue growth of the licensees. Motivated by the growing revenue, licensees were increasingly willing to obtain licence of the character IPs from licensors, and thus the royalty revenue from promotion and events exhibited considerable growth. In the future, the prevalence of interactive marketing is anticipated to continue, and thus the royalty revenue from promotion and events is expected to display continuous growth.

Market Size of Character Licensing Market
(by Total Revenue), Mainland China, 2016-2025E



Market Size of Character Licensing Market
(by Total Revenue), Hong Kong, 2016-2025E



Source: *Frost & Sullivan, National Bureau Statistics of China, Licensing International*

Market Drivers of Character Licensing Market

Rising IP Protection Awareness and Changing Consumption Behaviors in Mainland China

The PRC government has been promoting the importance of IP protection. In 2019, the State Council issued the Opinions on Strengthening IP Protection《關於強化知識產權保護的意見》, emphasising the importance of IP protection and helping to educate the public with an aim to raise public awareness on the value of IP and the importance of IP protection. With the rising awareness for IP protection in China, consumers are recognising the IP brand value with a preference for officially licensed products, which is evidenced by the increasing purchase of such products. The consumers are recognising the guaranteed quality and the embodied value and concepts in officially licensed products. In addition, with increasing disposable income, consumers are more capable of affording the premium price charged by officially licensed goods.

Increasing Creative Capability of Domestic IP in Mainland China

China is developing at a fast pace in original IP creation and innovation, and domestic IP creators from the upstream content market such as animation, comic, game, and novel are emerging in mainland China market in recent years. It is easier for domestic consumers to identify and recognise domestic original IPs, hence some multinational retailers have sought to leverage on the rising value of domestic IPs in marketing and have engaged in the sales of products bearing domestic IPs. The increasing creative capability of original character IP in mainland China has strengthened the character licensing market.

Adequate Infrastructure for Licensing Business in Hong Kong

The mature financial, legislative, and social infrastructure in Hong Kong together with its proximity to mainland China and SEA countries are contributing to the prosperous development of licensing business in Hong Kong. Hong Kong holds many signature events on licensing every year, including Hong Kong International Licensing Show and Asian Licensing Conference, etc. These events have a broad coverage of IP brands across industries, such as arts and culture, entertainment, apparel, fashion, and lifestyle, which attract different players across various sectors along the licensing value chain worldwide. As such, the developed infrastructure provided a foundation for the development of the licensing business in Hong Kong, which further invigorated its character licensing market.

More Sophisticated Application of Technology in Licensing Business in Hong Kong

The adoption of advanced technologies such as virtual reality technology, augmented reality technology, and 3D projection further enable IPs to interact with consumers via more immersive ways. This would create more IP commercialisation opportunities. For instance, by using 3D projection, licensed characters can interact with the audience directly in various scenarios such as museums and featured events.

Competitive Landscape of Character Licensing Market In Mainland China

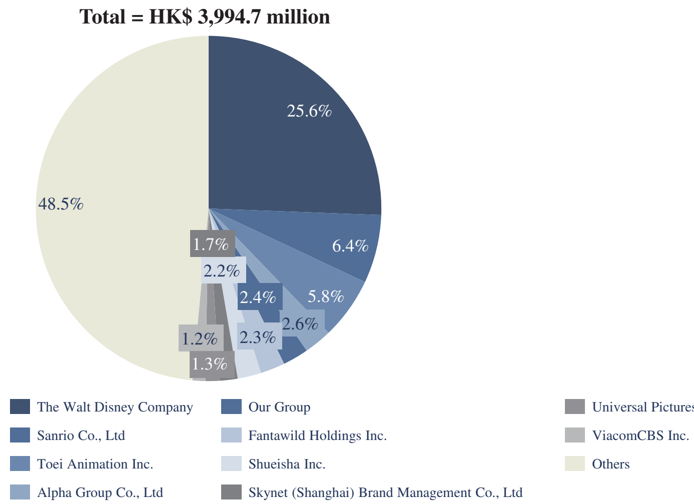
The character licensing market in mainland China is competitive and fragmented. Both international and domestic licensors are active in the market. Domestic licensors are companies whose headquarters are registered in Hong Kong or mainland China and international licensors are companies with headquarters located outside Hong Kong or mainland China and establish branches or work with third-party agencies to operate their IP rights in the local markets. International giants usually have strong operational capabilities, design capacity and broad mass basis, which makes them competitive in the licensing market in mainland China. The development of the character licensing market in mainland China started later than some foreign markets. Over the recent years, some domestic licensors have gained success in the character licensing market in mainland China due to their superior design and branding capability. The emergence of large-scale domestic licensors in mainland China brought fast development to the domestic character licensing market. Apart from multinational giants and large-scale domestic licensors, there are numerous small-and-medium licensors emerging in the mainland China character licensing market. However, most of the small-and-medium licensors are lacking licensing talents to support sufficient market operation.

There were over 300 active character licensors in the character licensing market in mainland China by the end of 2020. In 2020, we accounted for approximately 2.4% of the character licensing market in mainland China in terms of licensing revenue and ranked among the top ten players in the character licensing industry in mainland China. Among the domestic licensors (i.e. licensers with headquarters registered in mainland China or Hong Kong), our Group, which is famous for our IP, B.Duck, was the second largest domestic licensor of self-created characters in the character licensing market in mainland China in terms of revenue.

With respect to the character licensing market in Hong Kong, our Group recorded revenue of approximately HK$1.4 million in FY2020, accounting for approximately 0.7% of the market share in terms of licensing revenue.

For the competitive strengths of our Group, please refer to "Business — Our Competitive Strengths" in this Prospectus for a detailed discussion.

Market Share of Top Licensors in Character Licensing Market (by Revenue*), Mainland China, 2020



Source: *Company Annual Reports, Frost & Sullivan*

Rank	Company Name	Revenue* (HKD million)	Market Share
1	The Walt Disney Company	1,021.6	25.6%
2	Sanrio Co., Ltd	256.4	6.4%
3	Toei Animation Inc.	232.4	5.8%
4	Alpha Group Co., Ltd	104.1	2.6%
5	**Our Group**	**94.6**	**2.4%**
6	Fantawild Holdings Inc.	92.3	2.3%
7	Shueisha Inc.	88.3	2.2%
8	Skynet (Shanghai) Brand Management Co., Ltd	69.1	1.7%
9	Universal Pictures	50.5	1.3%
10	ViacomCBS Inc.	48.3	1.2%
	Others	1,937.2	48.5%
	Total	**3,994.7**	**100.0%**

* *Revenue refers to royalties from licensed merchandise goods, promotion and events as well as other consulting and design fees charged during licensing activities.*

Notes:

1. The Walt Disney Company, a diversified worldwide entertainment company which principally engaged in (i) media network; (ii) theme parks and consumer products; (iii) studio entertainment; and (iv) direct-to-consumer streaming services.

2. Sanrio Co., Ltd is a Japanese character licensing company which principally engaged in (i) design and licensing of character IP and copyrights; (ii) sales of social communication gifts, greeting cards, books and newspaper; (iii) publishing and production of content media; and (iv) design and operation of theme parks.

3. Toei Animation Inc. is a Japanese entertainment company which principally engaged in (i) production of animations for TV and movie theaters; (ii) licensing of TV series, video streaming and online game applications; and (iii) operation of character retail stores and sales of character goods.

4. Alpha Group Co., Ltd is a Chinese entertainment and licensing company which principally engaged in (i) production of cartoon and animation; and (ii) sales of toys and character goods.

5. Fantawild Holdings Inc. is a Chinese entertainment company which principally engaged in (i) design and production of content and media; (ii) production of special effect films, animations and themed performance; (iii) sales of consumer products; and (iv) design and development of theme parks.

6. Shueisha Inc. is a Japanese publishing company which principally engaged in (i) publication of books, magazine and other literatures; and (ii) copyright management and licensing.

7. Skynet (Shanghai) Brand Management Co., Ltd is a Chinese brand licensing company which principally engaged in (i) design and licensing of characters; and (ii) sales of character goods.

8. Universal Pictures is a US based film studio which principally engaged in (i) production of motion pictures and movies; (ii) sales of consumer products; and (iii) design and development of games and digital platforms.

9. ViacomCBS Inc. is a US based media and entertainment company which principally engaged in (i) media network; (ii) cable network and premium streaming services; and (iii) the release, distribution and/or licensing of film and television products.

The following chart shows the ranking of top five domestic licensors in character licensing in mainland China in 2020:

Top 5 Domestic Licensors in Character Licensing Market (by Revenue*), Mainland China, 2020

Rank	Company Name	Revenue* (HKD million)	Market Share
1	Alpha Group Co., Ltd	104.1	2.6%
2	Our Group	94.6	2.4%
3	Fantawild Holdings Inc.	92.3	2.3%
4	Skynet (Shanghai) Brand Management Co., Ltd	69.1	1.7%
5	Guangdong Winsing Company Limited	26.3	0.7%
	Others	3,608.4	90.3%
	Total	**3,994.7**	**100.0%**

* Revenue refers to royalties from licensed merchandise goods, promotion and events as well as other consulting and design fees charged during licensing activities.

Source: *Company Annual Reports, Frost & Sullivan*

Note: Guangdong Winsing Company Limited, is a Guangzhou based animation company, engaging in production and distribution of film and TV series in conjunction with licensing and merchandise activities.

Entry Barriers for Character Licensing Market

IP Awareness and History

Consumers' awareness and the history of an IP play important roles in determining the commercial value of the IP. Existing market players of the character licensing market have established strong market presence with their iconic IPs which have nurtured and grew an audience base. New entrants have to invest heavily in marketing activities to increase awareness and accumulate audience over a long time period before entering the licensing market.

Marketing and Branding Capabilities and IP Protection

The licensing value of an IP character depends heavily on its recognition. Appropriate marketing and branding strategies and substantial resources or investment are required to improve character recognition. The marketing capabilities of licensors also include introducing the character to the market, promoting its exposure, communicating its value and maintaining a positive public impression. To develop a well-received character, experiences of the market and continuous innovations are required. It is hard for a new entrant to obtain the required capabilities.

Once the character is developed and successfully marketed to the public, the company is required to have IP protection measures to protect IP copyrights from infringement and counterfeit design which would substantially harm the image and earnings of licensors. The requirement of well established IP protection measures would be a barrier for new entrants.

Design Capability

Creating a popular character image and adapting the image to licensees' products require strong design capabilities. For entrants who are also the creators of IP characters, it would be easier for them to redesign or adjust the character image according to licensees' requirements individually. However, for new entrants who enter into the market through direct acquisition of IPs, the lack of original design capability would be a challenge for them to sustain their business and maintain a stable relationship with licensees.

Talent Team

Human resource is the key to maintain the design capabilities of a character licensing company. A team with strong design and operation talent and rich experience in licensing market is vital for continuous development of a character and enhancing its commercial value. As the character licensing industry is relatively new in mainland China, special talents for character licensing business are in shortage. It takes high input of capital and time for new entrants to build a qualified team for character licensing business.

Threats and Challenges Faced by the Character Licensing Market

Potential Negative Impact on IP Value due to Inappropriate Use of IP

In recent years, the reputation of some Chinese IPs got impaired as their images were used in unsavoury contexts which resulted in negative impact on their IP value. The licensing of character IP to a third party might involve certain risks of undermining the image of the character IP since the character IP is automatically associated with and held accountable for the quality of the IP licensed goods or the content of a promotional activity featuring that particular character IP. When an inferior product or an irresponsible event planner use the IP, the public's perception of the character IP would be negatively affected and its image would be impaired. As such, the reputation of a character IP would be harmed in the event of inappropriate commercialisation of that character IP.

Potential Impact of Counterfeits

Although the IP protection mechanism of the licensing market in mainland China is improving, counterfeit IP products which closely mimick or imitate the popular character IPs, are inevitable. Such misbehaviors of the licensing market could compromise the income of IP licensors as well as paying licensees, which could prevent the character licensing market from growing steadily.

Shifting Consumer Preferences

Some character IPs have been created and commercialised for a considerable period of time, and have attracted a particular generation of people through association with their childhood memories, thereby securing a loyal fan base and consumer group. As the fans and/or potential customers of these character IPs grow up, their preferences shift and they might lose interest in purchasing licensed goods of these IPs. Therefore, if these long-standing IPs fail to sustain the loyalty of their consumer groups or expand their fan base and target consumer group by attracting the younger generations, it is likely for them to lose popularity and their ability to promote merchandise sales may be largely compromised.

ANALYSIS OF CHARACTER IP PRODUCTS E-COMMERCE MARKET IN MAINLAND CHINA

Overview of E-commerce Market in Mainland China

Compared to traditional retail, e-commerce lowers costs of operating a business and overcomes the geographical limitation. E-commerce through mobile phone applications further blurs the geographical boundaries in the retail market.

E-commerce developed rapidly in mainland China from the first 10 years in the 21st century because of favourable government policies and developing Internet infrastructure. The penetration rate of e-commerce experienced a rapid growth from 2016 to 2020, reaching 26.0% in 2020, and because of the outbreak of COVID-19, consumers are used to online channels more frequently during home quarantine.

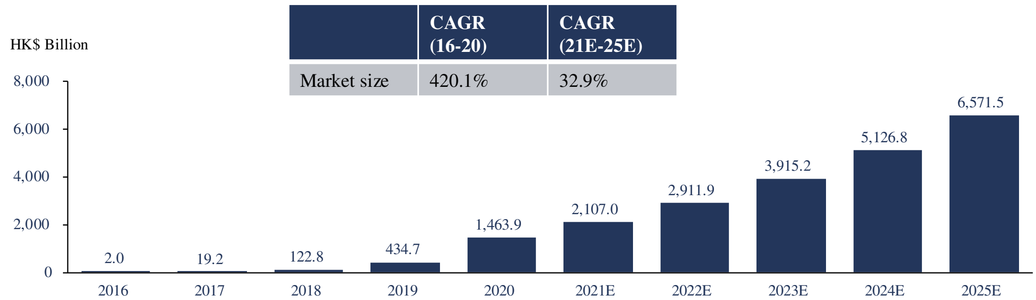
The e-commerce market can be separated into three categories, namely B2B (Business to Business), B2C (Business to Consumer), and C2C (Consumer to Consumer). Leading comprehensive e-commerce platforms have dominated the B2C e-commerce market with the largest user traffic gathered.

Online retail sales value of the B2C e-commerce market is expected to increase from RMB5.2 trillion in 2016 to RMB12.4 trillion in 2020 at a CAGR of 24.3%, and it is expected to further grow to RMB21.6 trillion in 2025 at a CAGR of 11.1% from 2021 to 2025.

Internet infrastructure has been developing quickly since 2015. The total number of internet users in China is expected to reach 976.3 million in 2020, and it is expected to further grow at a CAGR of 6.6% from 2021 to 2025.

Live streaming is one of the fastest emerging channels in e-commerce market in mainland China and represent a substantial portion of the growth of e-commerce market. Driven by the increasing expenditure on entertainment and culture of consumers, the escalating demand for social activities through online channels, the burgeoning mobile phone applications for short videos, and the emergence of professional KOLs that e-commerce platforms or specialty live streaming platforms can leverage to boost sales, the live streaming e-commerce market has exhibited tremendous growth in recent years. The live streaming e-commerce market in terms of merchandise sales GMV in mainland China grew from HK$2.0 billion in 2016 to HK$1,463.9 billion in 2020 at a CAGR of 420.1%. Live streaming e-commerce market in mainland China enjoyed rapid and substantial growth during the pandemic. The market is anticipated to reach HK$6,571.5 billion in 2025 at a CAGR of 32.9% from 2021 to 2025. In the future, broader product categories are expected to be sold during live streaming sales. Anchors on these live streaming platforms are anticipated to utilise more diverse forms and develop new tactics to broadcast in order to distinguish themselves from their peers. To improve the quality of their live streaming sessions which in turn would retain their audience and boost sales, some anchors would invite special guests, such as film stars, to participate in their live streaming sessions and interact with the audience. To leave a deep impression on the viewers, some anchors would choose to broadcast outside the studio so as to create new content. Furthermore, in order to nurture consumer interest in the products that they are promoting, anchors would host the live streaming events right at the place of origin, production facility or the sales points of such products to enable the viewers to gain more information of the products. By utilising various tactics and developing new streaming styles, anchors would not only develop new content and forms but also enhance their competitiveness, which in turn would drive other anchors to follow the trend and develop new tactics and content to remain competitive in the live streaming market.

Market Size of Live Streaming E-commerce Market (by Merchandise Sales GMV), Mainland China, 2016-2025E



Source: *Frost & Sullivan*

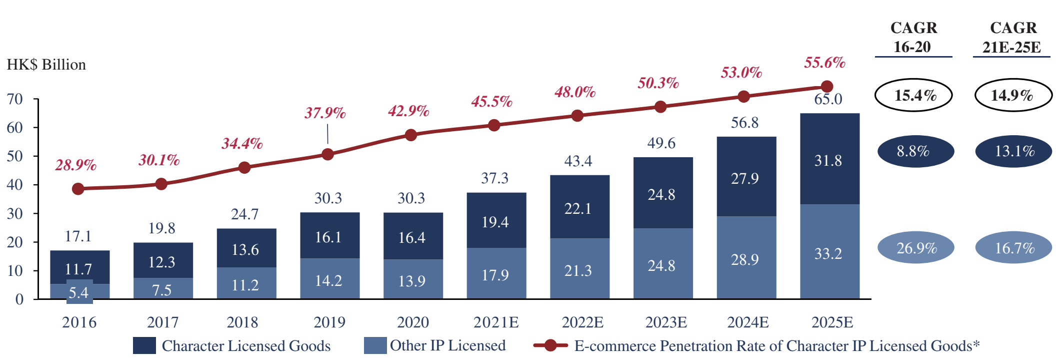
Market Size of Character IP Licensed Goods E-commerce Market in Mainland China

The e-commerce market of the overall IP licensed goods in mainland China grew from HK$17.1 billion in 2016 to HK$30.3 billion in 2020 at a CAGR of 15.4%. Character IP licensed goods are expected to account for approximately 54.1% of total market GMV of mainland China in 2020. Although COVID-19 has impacted the overall IP products market, e-commerce market of IP licensed goods remained stable in 2020 since consumers rely more on online channels to purchase during the pandemic, such as through live streaming sales. The e-commerce market of character IP licensed goods in mainland China increased from HK$11.7 billion in 2016 to HK$16.4 billion in 2020 at a CAGR of 8.8%, and it is expected to grow to HK$31.8 billion in 2025.

Character IP has been taking up the largest portion of the IP market, whereas fashion IP and corporate brand IP have experienced strong growth and gained more market share. As brand owners are becoming more interested in art elements and brand value, the IP licensed goods e-commerce market in mainland China is expected to have more diversified IP categories in the future. Driven by the diversification of IP categories, the IP licensed goods e-commerce market is expected to grow continuously from 2021 to 2025 in mainland China.

In character IP licensed goods segment, the e-commerce penetration rate is expected to reach 45.5% in 2021 and further grow to 55.6% in 2025. The growth of e-commerce penetration rate is driven by the more diversified ways to present character licensed goods on e-commerce platforms, such as through live streaming, etc.

Market Size of E-commerce Market of IP Licensed Goods (by GMV), Mainland China, 2016-2025E



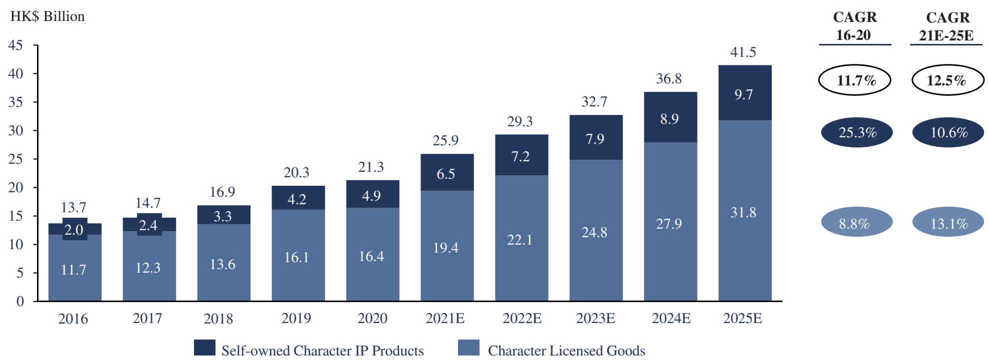
Source: *Frost & Sullivan, National Bureau Statistics of China, Licensing International*

* E-commerce Penetration Rate of Character IP Licensed Goods = GMV of Character Licensed Goods / Total Character IP Licensed Goods Retail Sales Value

Market Size of Character IP E-commerce Market in Mainland China

Character IP products can be categorised into self-owned character IP products and character IP licensed goods. E-commerce market of character IP products in mainland China grew from HK$13.7 billion in 2016 to HK$21.3 billion in 2020 at a CAGR of 11.7%. It is expected to grow to HK$41.5 billion in 2025 at a CAGR of 12.5% between 2021 to 2025. Retailers are recognising the benefits of developing self-owned IPs so as to glean more profits along the value chain. Through developing self-owned IPs, they can save licensing cost, and build competitive advantage over other retailers in the same industry which do not possess memorable IPs. On the other hand, the successful cases of domestic character IP commercialisation through online channels also incentivised IP owners to enter the e-commerce market.

Market Size of E-Commerce Market of Character IP Products (by GMV), Mainland China, 2016-2025E



Source: *Frost & Sullivan, Licensing International*

Market Drivers of IP Products E-commerce Market in Mainland China

Data-driven Licensing Product Innovation

By accumulating a large amount of e-commerce purchase records, e-commerce platforms are better equipped to understand their customers through their purchase behaviours. IP licensors and IP owner operators also cooperate with e-commerce platforms for more data-driven product innovation to better cater to the consumers' tastes. It also facilitates overseas IPs' first entry into the China market who have little knowledge of the customers in China. In 2018, the British Museum began to collaborate with Tmall for IP licensing. Tmall's understanding of its target consumers in the cultural and creative industry has helped the British Museum to quickly establish a strong presence in China.

More Digital Natives for Licensors to Capture

E-commerce platforms have gathered numerous potential customers of IP products, especially the younger generations who have distinct a more aesthetic proposition. Younger customers are also more active in online communities such as Animation, Comics and Games (ACG) forums, where IP culture has a strong presence. These digital natives, growing up in the era with a widespread adoption of digital technologies, are more likely to purchase IP products online. Therefore, e-commerce platforms bring together a promising market for IP licensors to capture the attention of the younger generations.

Immersive Technologies Enhance Consumer Experience

Fans of IPs usually expect more than just visual elements when they purchase IP products online. Immersive technologies such as VR and AR would enhance customers' experience by presenting the IP products vividly. Besides, consumers can also experience IP events online with immersive technologies. Technology advancement would therefore give more possibilities to the IP industry in China.

Market Trend of IP Products E-commerce Market in Mainland China

Mutual Promotion between IP Licensing and Time-honoured Brands

Since 2006, the Chinese Ministry of Commerce began to recognise the significance of brands with long-history and exclusive technologies as time-honoured brands (老字號) and encouraged them to integrate online and offline retail channels to boost their sales. To attract Generation Z consumers, these time-honoured brands turn to merchandise IP licensing and cooperate with e-commerce giants to engage in data-driven product innovation. For example, in 2017, Tmall launched a programme to help the time-honoured brands to capture young consumers and expand to overseas via IP licensing, cross-over marketing, and product customisation. As a result, various time-honoured brands have regained their popularity and successfully entered in the licensing goods e-commerce market. Both the time-honoured brands and the IP licensing market would benefit from favourable policies and business intelligence from e-commerce giants.

Comprehensive Marketing Solutions to Promote Licensed Products Online

The ripple effect of COVID-19 outbreak makes licensors and IP owner operators more sensitive to return on investment and sales figures. They are seeking comprehensive marketing solutions for IP licensed products such as livestream promotion and short-video advertising. E-commerce platforms, which can gather a large number of potential consumers and present IP licensed products in interactive and diverse ways, become a good choice for licensees and IP owner operators to drive consumers' engagement and sales. In addition, e-commerce platforms can contribute to nurturing consumers' interest in the IP products on the early stage, and also help to attract customer traffic to offline channels such as pop-up stores. In addition, IP licensors and IP owner operators nowadays rely more often on key opinion leaders (KOL) whose followers take much regard for their recommendations instead of celebrities' opinions. KOL engagement helps IP licensed products to promote brand, and to build trust and awareness among the KOL's followers. KOLs also can create high-quality content and contribute to a broader local reaching out for the IP licensors.

Digitalisation of IP Licensing Value Chain via E-commerce Platforms

Besides selling IP licensed products online, licensors are moving key activities of the licensing value chain including IP sourcing, licensing, marketing, and sales to online platforms. For example, Alifish, a digital licensing platform owned by Ali Pictures, has established a long-term partnership with leading IP licensors. Alifish helps the IP licensors to increase the commercial values by linking them up with diversified downstream licensees, planning promotion events, and driving traffic to Tmall and Taobao. Supported by e-commerce channels, IP licensing platforms move up the value chain by providing comprehensive services to licensors.

More Tailored Marketing Campaigns on E-commerce Platforms

E-commerce platforms allow tailored marketing campaigns for IP licensors and IP owner operators by leveraging big data and various interactive marketing channels, and eventually boost sales figures. E-commerce platforms have accumulated extensive consumers' purchase behaviour data which can be used to personalise advertising contents and to better prime consumption behaviour. With a better understanding of the consumers, e-commerce platforms also initiated promotion campaigns in recent years.

Membership marketing that helps IP licensees and IP owner operators to remain laser-focused on their existing fans who are the right target group for their IPs is gaining more attention. This is because new customer acquisition can be costly, and convincing an existing customer to repeatedly purchase the IP licensed products can save most of the steps (such as consumer education) leading up to the purchase by new customers. Thus, relying on loyalty programmes such as loyalty reward programmes to incentivise repeated purchases would encourage consumers to patronise IPs.

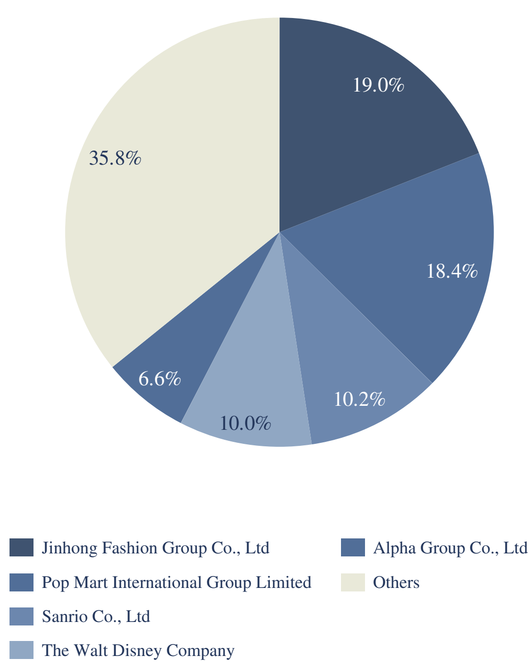
Competitive Landscape of China IP Products E-commerce Market

Regarding IP products e-commerce market, online stores can be categorised into direct-sales stores and licensee stores. An IP owner can either run online stores by itself and sell its IP products to customers (i.e. direct-sales stores) or license IP rights to licensees who will be in charge of online store operation (i.e. licensee stores). Direct-sales store model enables IP owner to diversify its business segment from pure licensing business, and assist IP owner to understand consumer preference and purchase habits better by directly accessing to consumer market, to cooperate with e-commerce platforms closely, and to have a better quality control on IP merchandise.

Regarding character IP product e-commerce market in mainland China, the market is highly fragmented with diversified product categories as well as players (including licensee and licensors) who are selling character IP products. Representative players include Disney (Disney IPs), Tsuburaya Productions Co (Ultraman IP), and Sunrise International (Gundam IP), etc.

Regarding the self-owned character IP product e-commerce market in mainland China, the market is fragmented with long-tail characteristics and diversified product categories. The sales value of our Group's character IP product e-commerce sales in mainland China in FY2020 amounted to approximately HK$129.6 million, with a market share of approximately 2.6% in the self-owned character IP products e-commerce market in mainland China in terms of sales value.

Market Share of Top 5 Players in Self-owned Character IP E-commerce Market (by Sales Value), Mainland China, 2020



Source: *Company Annual Reports, Frost & Sullivan*

Notes:

1. Jinhong Fashion Group Co., Ltd, headquartered in Nanjing, is an apparel company which designs, produces and sells apparel products, including women's wear, men's wear, kids' wear.

2. Pop Mart International Group Limited, is a Beijing based trendy culture and entertainment company, with business focus on nurturing artists, incubating IPs and promoting trendy toys.

Rank	Company Name	Sales Value (HKD million)	Market Share
1	Jinhong Fashion Group Co., Ltd	929.9	19.0%
2	Pop Mart International Group Limited	900.8	18.4%
3	Sanrio Co., Ltd	501.0	10.2%
4	The Walt Disney Company	490.0	10.0%
5	Alpha Group Co., Ltd	321.6	6.6%
	Others	1,756.7	35.8%
	Total	**4,900.0**	100.0%

Source: *Company Annual Reports, Frost & Sullivan*

Entry Barriers of IP Products E-commerce Market

IP Barrier

In order to conduct licensed goods e-commerce business, operators must either possess self-owned IPs or cooperate with licensors. Licensed goods e-commerce operators will naturally enjoy fan economy effect (粉絲經濟效應) and benefit from the customer loyalties to the IP itself. Only with merchandises featured with IPs can the operator make an entry to licensed goods e-commerce market, and therefore IP becomes the most critical and fundamental entry barrier for the market.

E-commerce Operation Experience and Capacity Barrier

Licensed goods business operators equipped with abundant experiences in running e-commerce business is another essential factor to succeed. Experienced team will consider various means including KOLs or celebrities live streaming sale (直播帶貨), collaboration with e-commerce shopping festivals (e.g. Double-Eleven, Double-12 Day), scene online shopping (場景式線上購物), etc. to maximise the IP influence and promote merchandise to consumers. Operators who are not familiar with online business operation may feel not adaptive to the e-commerce environment and fade in the market.

Product Design Capacity Barrier

The design capacity of IP-licensed products or merchandises is another entry barrier, and operators with such capacity can ensure the product quality and appearances to be consistent with images or messages that an IP is delivering to the public, and helps to widely spread IP influences. Operators with little or poor product design capacity are very likely to fail in licensed goods e-commerce business.

Threats and Challenges of IP Products E-commerce Market

COVID-19 Impact on IP Products Market

COVID-19 has impacted the global retail market with consumers' lower income expectation and cutting down on daily spending. In addition, the release of films and cartoons were postponed, leading to a decrease in IP supply in 2020. With less IP creation and consumers' lower willingness to buy IP products, the retail sales of IP licensed goods market decreased in 2020, and the growth of IP Products E-commerce sales slowed down accordingly. However, the IP Products market recovered soon after the spread of COVID-19 was controlled. The ripple effect of COVID-19 is expected to be limited in the long run.

Consolidation of E-commerce IP Products Market

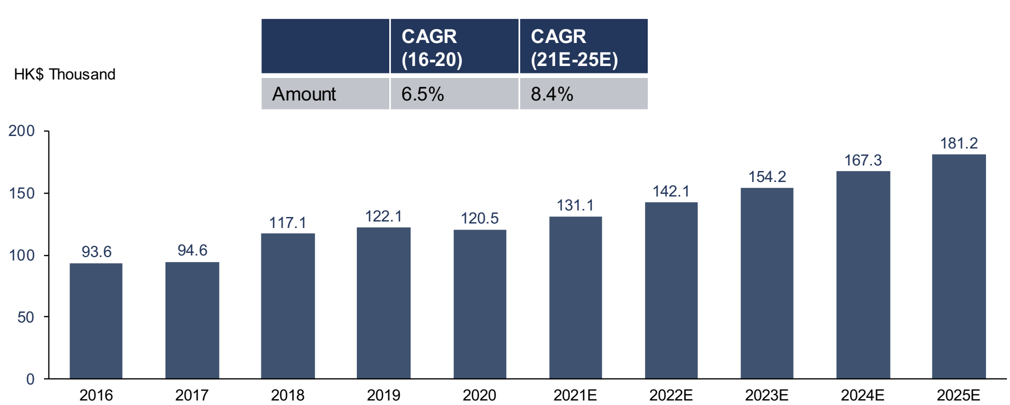
The e-commerce market in mainland China is dominated by several giants such as Taobao, Tmall, and JD.com. Inevitably, online licensing goods e-commerce market shows a high consolidation since only leading e-commerce platforms have enough intelligence to help IP licensors and IP owner operators expand their business. This may lead to fierce competition in traffic and advertising resources between IP licensors and IP owner operators. However, the IP products e-commerce market is on its growth stage and still has a large growth potential. In the future, e-commerce platforms are expected to become more aware of the importance of IP licensing market and enhance their capability to attract IP licensors and IP owner operators.

COST ANALYSIS

Staff cost is an important cost component of a character IP company, and is one of the major cost components of our Group. From 2016 to 2020, the average annual salary of people who are working in the culture, sport, and entertainment industry in mainland China grew from HK$93,600 to HK$120,500 at a CAGR of 6.5%. It is expected to grow to HK$181,200 at a CAGR of 8.4% from 2021 to 2025. The rising demand for graphic designers from various industries under the rapidly-growing economy in mainland China, combined with the supply of talents in the industry, continuously drives the increase of salary from 2016 to 2025.

With the consumption upgrade in mainland China, the youth population nowadays tends to spend more time and money on products or services relating to self-entertainment, including anime, mobile games and movies, leading to a further development of business in culture, sport and entertainment, and which acts as a driving force for the future average salary in the relevant industries. Practitioners of the cultural and entertainment industry who may benefit from such growth include designers, technicians, administration staff, and management staff of the culture, entertainment, and sports business.

Average Annual Salary of Culture, Sport and Entertainment Industry
Mainland China, 2016-2025E



Source: *National Bureau of Statistics of China, Frost & Sullivan*

HONG KONG LAWS AND REGULATIONS

Apart from the general laws and regulations in Hong Kong applicable to our Group, there is no specific regulatory framework in Hong Kong that governs the principal business activities of our Group, namely the character licensing business and e-commerce and other business. The following sets out the general laws and regulations in Hong Kong relating to (A) the business operation of our Group; (B) the employment of our Group; and (C) the health and safety of our Group's employees, which are applicable to our Group.

(A) Business Operation of our Group

Trade Marks Ordinance (Chapter 559 of the laws of Hong Kong) (the "Trade Marks Ordinance")

Under the Trade Marks Ordinance, words, designs, figurative elements and other distinctive signs may be registered as trademarks to distinguish the goods or services of one business from another. Once registered, use of an identical or confusingly similar mark by a third party in respect of the same or similar goods or services will constitute trademark infringement. In infringement proceedings, the trademark owner or exclusive licensee (subject to terms of the licence) may in its own name, seek for an injunction, an order for delivery up or disposal of the infringing goods and materials, discovery of the infringing transactions and damages or an account of the infringer's profits.

A trademark registration will be valid for a period of 10 years from the date of registration and can be renewed indefinitely for further periods of 10 years. Renewal only involves the filing of the appropriate form and payment of the prescribed fee within 6 months before expiry or within a grace period of not more than 6 months, otherwise the registration will be removed. Within 6 months of removal (which is not extendible), it is possible to request for restoration and renewal of the mark with payment of a fee.

If after taking into account all factors such as use, recognition, history of operation, value, registrations, enforcement and goodwill of a trademark as described in Schedule 2 of the Trade Marks Ordinance about determination of well-known trade marks, the trademark is determined to be well-known, it will enjoy protection as a well-known mark under the Paris Convention. As a well-known mark, the mark can enjoy protection against conflicting marks, business identifiers and domain names even in the absence of a trademark registration in Hong Kong.

A trademark which is not used for a continuous period of 3 years or more after the grant of registration without any valid reason (such as import restrictions or government requirements) may become vulnerable to an application by a third party to cancel.

Copyright Ordinance (Chapter 528 of the laws of Hong Kong) (the "Copyright Ordinance")

Graphic works, photographs and sculptures are examples of artistic works which are protected by the Copyright Ordinance irrespective of artistic quality, provided they are original, i.e. created by their authors without copying from an earlier work. Copyright subsists automatically upon creation of such artistic works without the requirement for registration. Generally speaking, copyright in an artistic work continues for a period of life of the author plus 50 years.

Hong Kong adopts an open qualification system whereby any original works created by any person or published by any person anywhere in the world can qualify for protection in Hong Kong. On the other hand, by virtue of international conventions which apply to Hong Kong by reason of the PRC being a member, copyright owned by a Hong Kong entity is recognised and enforceable in nearly 180 member countries around the world.

In the context of artistic works created in the course of employment, unless the employment agreement provides otherwise, the employer is the owner of the copyright.

Copyright protects against unauthorised copying of the whole or a substantial part of the work and against dealing with infringements. In an action for infringement, a copyright owner or its exclusive licensee can apply for injunctions, discovery of infringing acts, damages or accounts of profits and may apply for an order of delivery up or disposal of the infringing copies or articles specifically designed or adapted for making infringing copies. If the infringement is flagrant, the court may award additional damages as the justice of the case may require.

The Law on Passing Off

Passing off is a common law tort to protect a trader's goodwill generated from use of distinguishing features of his trade such as the use of distinctive names, trademarks or get-ups in the absence of registered trademarks for such distinctive elements. Goodwill is commonly defined as "the benefit and advantage of the good name, reputation, and connection of a business, the attractive force which brings in custom". Another trader should not use in his trade features which are identical or similar to such distinguishing features and which may confuse customers into believing that his goods or services are those of the owner of the goodwill.

The remedies in an action for passing off are similar to those available in an action for infringement of a registered trademark, principally an injunction, discovery, delivery up or disposal and damages or an account of profits.

Registered Designs Ordinance (Chapter 522 of the laws of Hong Kong) (the "Registered Designs Ordinance")

Designs registrable under the Registered Designs Ordinance are features of shape, configuration, pattern or ornament which are novel, which appeal to the eye and which are applied to an article by any industrial process. Once registered, no one else can use or deal with articles in respect of which the design is registered, a design which is not substantially different whether or not such design is copied from the registered design or made independently. The remedies are basically the same as for copyright but there is no provision for additional damages.

The period of protection of a registered design is renewable for periods of 5 years, up to a maximum of 25 years in total. If a registrable design is not registered, it can still enjoy automatic copyright protection for 15 years from the end of the calendar year in which the design is first applied to an article.

Confidential Information

In a business context, breach of confidence is a common law tort which protects commercial non-public information provided that the owner takes prudent steps to preserve the confidentiality of such information. This cause of action can protect trade secrets, customer and supplier database and other confidential business information. Duty of confidentiality can arise from contract, such as contract of employment, or if the person receiving the information should know that such information was imparted in circumstances importing an obligation of confidence. This duty binds not only the person receiving the confidential information but also a third party who receives such information knowing that the information has been disclosed by his informant in breach of confidence.

Inland Revenue (Amendment) (No. 6) Ordinance 2018

The Legislative Council passed the base erosion and profit shifting ("**BEPS**") and transfer pricing ("**TP**") Bill (i.e. the Inland Revenue (Amendment) (No. 6) Bill 2017 ("**the Bill**") on 4 July 2018. The Bill was enacted as Inland Revenue (Amendment) (No. 6) Ordinance 2018 ("**the BEPS and TP Ordinance**") and came into force on 13 July 2018. In embracing the BEPS initiatives taken by the Organisation for Economic Co-operation and Development ("**OECD**"), the BEPS and TP Ordinance also implements the various minimum standards under the OECD's BEPS Action Plan in Hong Kong.

TP regulatory regime

The BEPS and TP Ordinance codifies the arm's length principle into the Inland Revenue Ordinance ("**IRO**") and empowers the Inland Revenue Department ("**IRD**") to impose TP adjustments on either income or loss arising from non-arm's length transactions between associated persons that give rise to potential Hong Kong tax advantage.

TP documentation requirement

The BEPS and TP Ordinance introduces a mandatory "three-tiered" TP documentation requirement in Hong Kong consisting of the following:

I. Master File;

II. Local File;

III. Country-by-country (CbC) Report.

Master File and Local File

The law provides two types of exemptions to entities that engage in transactions with associated enterprises from preparing Master File and Local File. The exemptions set out thresholds base on

(i) Size-based business exemption thresholds

A Hong Kong taxpayer meeting any two of the below three size-based business exemption thresholds for an accounting period is exempted from preparing the Master File and Local File for that accounting period:

I. Total annual revenue not exceeding HK$400 million;

II. Total value of assets not exceeding HK$300 million;

III. Average number of employees not exceeding 100

(ii) Volume-based related party transactions exemption thresholds

The following thresholds (per accounting period) apply for each category of related party transactions for exemption purpose:

I. Transfer of property (excluding financial assets/intangible assets): HK$220 million;

II. Transaction in respect of financial assets: HK$110 million;

III. Transfers of intangibles: HK$110 million;

IV. Any other transactions: HK$44 million

Unless either of the above size-based or volume-based exemptions applies, a Hong Kong taxpayer is required to prepare Master File and Local File for an accounting period within nine months after the end of that accounting period.

CbC Reporting and notification

A Hong Kong ultimate parent entity (UPE) of a multinational enterprise group with prior year annual combined group revenues of HK$6.8 billion or above (approximately 750 million Euros) (i.e. a reportable group) is required to file a CbC report in Hong Kong, unless the surrogate parent entity-filling-elsewhere exception applies.

Substantial activity requirement for concessionary tax regimes

The BEPS and TP Ordinance includes provision with the effect that concessionary tax treatments in the tax regimes for corporate treasury centres, reinsurance business, shipping business, aircraft lessors and aircraft leasing managers will be available only if the specified threshold requirements for determining whether profits producing activities are carried out in Hong Kong are met.

*Deeming provision on income from intellectual property ("**IP**")*

A new section 15F is introduced such that where a person has contributed in Hong Kong to the development, enhancement, maintenance, protection or exploitation of an IP and income is derived by a non-Hong Kong resident who is an associate of that person from the use of or a right to use such IP outside Hong Kong, the part of the income that is attributable to the value creation contributions in Hong Kong will be regard as a taxable trading receipt arising in or derived from a trade or business carried on in Hong Kong.

Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the "PDPO")

Section 4 of the PDPO states that any person who controls the collection, holding, processing or use of the personal data (a "**data user**") shall not do any act, or engage in a practice, that contravenes any of the data protection principles set out in Schedule 1 to the PDPO (the "**Data Protection Principles**") unless the act or practice, as the case may be, is required or permitted under the PDPO. Personal data means any data (a) relating directly or indirectly to a living individual; (b) from which it is practicable for the identity of the individual to be directly or indirectly ascertained; and (c) in a form in which access to or processing of the data is practicable.

We may collect the personal data of our fans through the WeChat mini programme to be developed by us in the future. Hence, we will be required to comply with the Data Protection Principles. The Data Protection Principles set out that (1) personal data must be collected in a lawful and fair way, for a purpose directly related to a function or activity of the data user. Data subjects must be notified of the purpose for which the data is to be used for and the classes of persons to whom the data may be transferred. Data collected should be adequate but not excessive; (2) personal data must be accurate and should not be kept for a period longer than necessary for the fulfilment of the purpose for which the data is or is to be used; (3) personal data must be used for the purpose for which the data is collected or for a directly related purpose unless voluntary and explicit consent with a new purpose is obtained from the data subject; (4) a data user shall take practicable steps to safeguard any personal data held against unauthorised or accidental access, processing, erasure, loss or use; (5) a data user shall take practicable steps to ensure that its policies and practices in relation to personal data, the kind of personal data it holds and the main purposes for which the personal data is or is to be used for are made known to the public; and (6) a data shall be entitled to request access to personal data and must be allowed to correct the personal data if it is inaccurate.

In the event of non-compliance with any of the principles above, the Privacy Commissioner for Personal Data may serve an enforcement notice on a data user, directing the data user to remedy the contravention and, where applicable, prevent any recurrence of the contravention. Section 50A of the PDPO states that a data user who contravenes an enforcement notice commits an offence and shall be liable to a fine of HK$50,000 and to imprisonment for two years, and to a daily penalty of HK$1,000 if the contravention continues after the conviction.

The PDPO further criminalises misuse or inappropriate use of personal data in directing marketing activities under Part 6A of the PDPO, non-compliance with data access request under section 19 of the PDPO, and unauthorised disclosure of personal data collected without consent from data users under section 64 of the PDPO.

An individual who suffers damage, including injured feelings, by reason of contravention of the PDPO in relation to his or her personal data, may seek damages from the data user concerned in civil proceedings.

(B) Employment of our Group

Minimum Wage Ordinance (Chapter 608 of the laws of Hong Kong) (the "Minimum Wage Ordinance")

The Minimum Wage Ordinance establishes a statutory minimum wage regime to provide for a minimum wage at an hourly rate for employees employed under a contract of employment under the Employment Ordinance (Chapter 57 of the laws of Hong Kong), save for stipulated exceptions.

Statutory minimum wage became effective on 1 May 2011 and with effect from 1 May 2019, the minimum wage rate is currently set at HK$37.5 per hour. Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by this Minimum Wage Ordinance is void.

The Minimum Wage Commission must report on any recommended changes in statutory minimum wage at least once in every two years to the Chief Executive in Hong Kong, and the Chief Executive may adjust the statutory minimum wage having regard to such recommendation.

Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the laws of Hong Kong)

Under the Mandatory Provident Fund Schemes Ordinance, employers are required to enrol their regular employees (except for certain exempted persons) aged between at least 18 but under 65 years of age and employed for 60 days or more in a Mandatory Provident Fund ("**MPF**") scheme within the first 60 days of employment.

For both employees and employers, it is mandatory to make regular contributions into an MPF scheme. For an employee, subject to the maximum and minimum levels of income (HK$25,000 and HK$7,100 per month, respectively before 1 June 2014 or HK$30,000 and HK$7,100 per month, respectively on or after 1 June 2014), an employer will deduct 5% of the relevant income on behalf of an employee as mandatory contributions to a registered MPF scheme with a ceiling of HK$1,250 before 1 June 2014 or HK$1,500 on or after 1 June 2014. Employer will also be required to contribute an amount equivalent to 5% of an employee's relevant income to the MPF scheme, subject only to the maximum level of income (HK$25,000 per month before 1 June 2014 or HK$30,000 on or after 1 June 2014).

(C) Health and Safety of our Group's Employees

Occupational Safety And Health Ordinance (Chapter 509 of the laws of Hong Kong)

The Occupational Safety and Health Ordinance provides for the safety and health protection of employees in workplaces, both industrial and non-industrial and is therefore applicable to our Group's employees in general. Among others, employer must, as far as reasonably practicable, ensure the safety and health at work of all our employees by:

(a) providing and maintaining plant and work systems that are, so far as reasonably practicable, safe and without risks to health;

(b) making arrangement for ensuring, so far as reasonably practicable, safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances;

(c) providing all necessary information, instruction, training and supervision to employees as may be necessary to ensure, so far as reasonably practicable, safety and health;

(d) providing and maintaining the workplace, and safe access to and egress from the workplace that are, so far as reasonably practicable, safe and without risks to health; and

(e) providing and maintaining work environment that is, so far as reasonably practicable, safe and without risks to health.

An employer who fails to do so intentionally, knowingly or recklessly commits an offence and is liable on conviction to a maximum fine of HK$200,000 and to imprisonment for six months.

The Commissioner for Labour may also issue improvement notices against non-compliance of the Occupational Safety and Health Ordinance, or suspension notices against activity of workplace which may create imminent hazard to the employees. Failure to comply with such notices constitutes an offence punishable by a maximum fine of HK$200,000 and HK$500,000 respectively and imprisonment of up to 12 months.

Occupiers Liability Ordinance (Chapter 314 of the laws of Hong Kong)

The Occupiers Liability Ordinance regulates the obligations of a person occupying or having control of premises on injury resulting to persons or damage caused to goods or other property lawfully on the land.

The Occupiers Liability Ordinance also imposes a common duty of care on an occupier of premises to take such care as in all the circumstances of the case is reasonable to see that the visitor will be reasonably safe in using the premises for the purposes for which he is invited or permitted by the occupier to be there.

Employees' Compensation Ordinance (Chapter 282 of the laws of Hong Kong)

The Employees' Compensation Ordinance establishes a no-fault and non-contributory employee compensation system for work injuries and lays down the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases. The Employees' Compensation Ordinance in general applies to all full-time and part-time employees who are employed under a contract of service or apprenticeship in any employment.

Under the Employees' Compensation Ordinance, all employers are required to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees. An employer who fails to comply with the Employees' Compensation Ordinance to secure an insurance cover is liable on conviction to a maximum fine of HK$100,000 and imprisonment for two years.

The Employees' Compensation Ordinance provides for payment of compensation to employees who are injured in the course of employment. An employer is liable to pay compensation in respect of personal injuries sustained by his employees by accident rising out of and in the course of employment; or in respect of total or partial incapacity or death of employee results from occupational diseases and is due to the nature of any employment in which the employee was employed at any time within the prescribed period immediately preceding such incapacity or death.

PRC LAWS AND REGULATIONS

The relevant laws and regulations application to the operations and business of our Group's subsidiaries in the PRC are set out below:

(A) Foreign Investment

Investment activities in the PRC by foreign investors are principally governed by the Catalogue of Industries for Encouraging Foreign Investment (the "**Encouraging Catalogue**"), and the Special Administrative Measures (Negative List) for Foreign Investment Access (the "**Negative List**"), which were promulgated and are amended from time to time by MOFCOM and the NDRC, and together with the Foreign Investment Law and its respective implementation rules and ancillary regulations. The Encouraging Catalogue and the Negative List lay out the basic framework for foreign investment in China, classifying businesses into three categories with regard to foreign investment: "encouraged", "restricted" and "prohibited". Industries not listed in the Encouraging Catalogue or the Negative List are generally deemed as falling into a fourth category "permitted" unless specifically restricted by other PRC laws. On 27 December 2020, MOFCOM and the NDRC released the Catalogue of Industries for Encouraging Foreign Investment (2020 Version) (《鼓勵外商投資產業目錄(2020年版)》). On 23 June 2020, MOFCOM and the NDRC promulgated the Special Administrative Measures (Negative List) for Foreign Investment Access (2020 Version) (《外商投資準入特別管理措施(負面清單)(2020年版)》), which became effective on 23 July 2020.

On 15 March 2019, the NPC, promulgated the Foreign Investment Law (《外商投資法》) (the "**FIL**"), which has come into effect on 1 January 2020 and replaced the trio of laws regulating foreign investment in the PRC, namely, the PRC Equity Joint Venture Law (《中華人民共和國中外合資經營企業法》), the Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法》) and the PRC Cooperative Joint Venture Law (《中華人民共和國中外合作經營企業法》). Its implementation of regulations promulgated by the State Council in December 2019 also came into effect on 1 January 2020. The FIL, by means of legislation, establishes the basic framework for the access, promotion, protection and administration of foreign investment in view of investment protection and fair competition.

According to the FIL, foreign investment shall enjoy pre-entry national treatment, except for those foreign invested entities that operate in industries deemed to be either "restricted" or "prohibited" in the "negative list". The FIL provides that foreign invested entities operating in foreign "restricted" or "prohibited" industries will require entry clearance and other approvals. The FIL does not comment on the concept of "de facto control" or contractual arrangements with consolidated affiliated entities, however, it has a catch-all provision under definition of "foreign investment" to include investments made by foreign investors in China through means stipulated by laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions to provide for contractual arrangements as a form of foreign investment. In addition, a foreign investment information reporting system shall be established and foreign investors or foreign-funded enterprises shall submit the investment information to competent departments for commerce through the enterprise registration system and the enterprise credit information publicity system. Furthermore, the FIL provides that foreign invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementing of the FIL, which means that foreign invested enterprises may be required to adjust the structure and corporate governance in accordance with the current PRC Company Law (《中華人民共和國公司法》) and other laws and regulations governing the corporate governance.

On 26 December 2019, the State Council promulgated the Implementation Rules of Foreign Investment Law (《中華人民共和國外商投資法實施條例》), which took effect on 1 January 2020 and abolished the Regulation on the Implementation of the PRC Equity Joint Ventures Law (《中華人民共和國中外合資經營企業法實施條例》), Interim Provisions on the Contract Term of Equity Joint Ventures (《中外合資經營企業合營期限暫行規定》), Detailed Rules for the Implementation of the PRC Wholly Foreign-owned Enterprise Law (《中華人民共和國外資企業法實施細則》) and Detailed Rules for the Implementation of the PRC Cooperative Joint Venture Law (《中華人民共和國中外合作經營企業法實施細則》). The implementation rules further clarified that the state encourages and promotes foreign investment, protects the lawful rights and interests of foreign investors, regulates foreign investment administration, continues to optimise foreign investment environment, and advances a higher-level opening. On 30 December 2019, MOFCOM and SAMR jointly promulgated the Measures for Information Reporting on Foreign Investment (《外商投資信息報告辦法》), which became effective on January 1, 2020. Pursuant to the Measures for Information Reporting on Foreign Investment, where a foreign investor carries out investment activities in China directly or indirectly, the foreign investor or the foreign-invested enterprise shall submit the investment information to the competent commerce department.

(B) Intellectual Property Rights

Copyright

Pursuant to the Copyright Law of the PRC (《中華人民共和國著作權法》) (the "**Copyright Law**"), which was promulgated on 7 September 1990 and amended on 27 October 2001, 26 February 2010 and 11 November 2020, and its related Implementing Regulations (《中華人民共和國著作權法實施條例》) promulgated on 30 May 1991 and amended on 2 August 2002, 8 January 2011 and 30 January 2013, copyrights include personal rights such as the right of publication and that of attribution as well as property rights such as the right of production and that of distribution. Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, take remedial action, and offer an apology, pay damages, etc.

Trademark

The PRC Trademark Law (《中華人民共和國商標法》) was promulgated by the Standing Committee of the National People's Congress (the "**SCNPC**") on 23 August 1982, which came into effect on 1 March 1983, amended on 22 February 1993, 27 October 2001, 30 August 2013 and 23 April 2019, and the PRC Trademark Implementing Regulations (《中華人民共和國商標法實施條例》) promulgated by the State Council (the "**SC**") on 3 August 2002 which came into effect on 15 September 2002 and amended on 29 April 2014. These laws and regulations provide the basic legal framework for the regulation of trademarks in the PRC. The trademark office is responsible for the registration and administration of trademarks throughout the country. The PRC has adopted a "first-to-file" principle with respect to trademarks. The period of validity of a registered trademark is ten years from the date of registration; renewal is allowed thereafter and the period of validity of each renewal of registration is ten years. The State Administration for Industry and Commerce has the power to investigate and handle any act of infringement of the exclusive right to use a registered trademark according to law; if the case is so serious as to constitute a crime, it shall be transferred to the judicial authority for handling.

For a trademark applied for registration, the PRC Trademark Office shall, within nine months upon receipt of application documents for trademark registration, complete the examination in the form of either preliminary acceptance or rejection. In the case of preliminary acceptance, the PRC Trademark Office shall make a three-month public announcement thereof, subject to any interested party's challenge. Depending on whether any opposition application is filed against it, a trademark thus announced may either go through opposition application review or be approved for registration upon the expiration of the announcement period.

For trademarks that have been successfully registered, application for revocation or invalidation may be filed against these trademarks. The PRC Trademark Review and Adjudication Board shall make a ruling within 12 months upon receipt of the invalidation application. Such period may be prolonged for six months after certain approval. In the event that the party concerned is dissatisfied with the ruling of the PRC Trademark Review and Adjudication Board, it may appeal to the People's Court within 30 days from receipt of the notice.

The PRC Trademark Office shall make decision within nine months upon receipt of application to revoke a trademark. Such period may be prolonged for three months after certain approval.

The specific periods stipulated in the Implementing Regulations of the PRC Trademark Law shall not be included in the trademark examination and hearing periods.

(C) Taxation

Enterprise Income Tax

According to EIF Law, which was promulgated on 16 March 2007, came into effect on January 1 2008 and was subsequently amended on 24 February 2017, 29 December 2018, and the Implementation Rules to the EIT Law (《中華人民共和國企業所得稅法實施條例》) (the "**Implementation Rules**"), which was promulgated on 6 December 2007, came into effect on 1 January 2008 and was amended on 23 April 2019, enterprises are divided into resident enterprises and non-resident enterprises. A resident enterprise shall pay EIT on its income deriving from both inside and outside China at the EIT rate of 25%. A non-resident enterprise that has an establishment or place of business in the PRC shall pay EIT on its income deriving from inside China and obtained by such establishment or place of business, and on its income which derives from outside China but has actual relationship with such establishment or place of business, at the EIT rate of 25%. A non-resident enterprise that does not have an establishment or place of business in China, or has an establishment or place of business in China but the income has no actual relationship with such establishment or place of business, shall pay EIT on its income deriving from inside China at the reduced rate EIT of 10%.

The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》) (the "**Arrangement**") on 21 August 2006 and implemented the Arrangement from 1 January 2007. According to the Arrangement, the withholding tax rate 5% applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests in the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests in the PRC company.

Value-added Tax

According to the PRC Temporary Regulations on Value-added Tax (《中華人民共和國增值稅暫行條例》) (Order No. 538 of the State Council), which was amended on 10 November 2008, 6 February 2016, and 19 November 2017, and the Detailed Implementing Rules of the Temporary Regulations on Value-added Tax (《增值稅暫行條例實施細則》) (Order No. 65 of the MOF), which was amended on 28 October 2011 and became effective on 1 November 2011, any entities and individuals selling goods, providing labour services of processing, repairs or maintenance, or selling services, intangible assets or real property in China, or importing goods to China, shall be identified as taxpayers of value-added tax, and shall pay value-added tax under the Interim Value-Added Tax Regulations of the People's Republic of China. VAT payable is calculated as output VAT minus input VAT. The VAT rate is 17% or, in certain limited circumstances, 11%, depending on the products/services, excluding small-scale taxpayers as defined in the Interim Regulations on Value-Added Tax of PRC. The rate of VAT for goods exported by a taxpayer is 0, unless otherwise stipulated by the State Council.

According to provisions in the Notice on Adjusting the Value-added Tax Rates (《關於調整增值稅稅率的通知》) (Cai shui [2018] No. 32) issued by the State Administration of Taxation, Ministry of Finance, where taxpayers make VAT taxable sales or import goods, the applicable tax rates shall be adjusted from 17% to 16% and from 11% to 10%, respectively. The Notice became effective on 1 May 2018, and the adjusted VAT rates became effective at the same time according to the Notice.

Furthermore, according to the Trial Scheme for the Conversion of Business Tax to Value-added Tax (《營業稅改征增值稅試點方案》) (Cai Shui 2011 No. 110), which was promulgated by the MOF and the SAT, the State began to launch taxation reforms in a gradual manner with effect from 1 January 2012, whereby the collection of value-added tax in lieu of business tax items was implemented on a trial basis in regions showing significant radiating effects in economic development and providing outstanding reform examples, beginning with production service industries such as transportation and certain modern service industries.

On 20 March 2019, the MOF, the SAT and the General Administration of Customs jointly issued the Announcement on Policies for Deepening the VAT Reform (《關於深化增值稅改革有關政策的公告》) (the "**Announcement 39**"), to further slash value-added tax rates. According to the Announcement 39, (i) for general VAT payers' sales activities or imports that are subject to VAT at an existing applicable rate of 16% or 10%, the applicable VAT rate is adjusted to 13% or 9% respectively; (ii) for the agricultural products purchased by taxpayers to which an existing 10% deduction rate is applicable, the deduction rate is adjusted to 9%; (iii) for the agricultural products purchased by taxpayers for production or commissioned processing, which are subject to VAT at 13%, the input VAT will be calculated at a 10% deduction rate; (iv) for the exportation of goods or labour services that are subject to VAT at 16%, with the applicable export refund at the same rate, the export refund rate is adjusted to 13%; and (v) for the exportation of goods or cross-border taxable activities that are subject to VAT at 10%, with the export refund at the same rate, the export refund rate is adjusted to 9%. The Announcement 39 came into effect on April 1 2019 and shall prevail in case of any conflict with existing provisions.

State Taxation Administration ("STA") Public Notice [2016] No. 42

On 29 June 2016, the STA issued the Public Notice regarding Refining the Reporting of Related Party Transactions and Administration of Transfer Pricing Documentation (STA Public Notice [2016] No. 42, hereinafter referred to as the "**PN 42**"). The PN 42 provides new transfer pricing compliance requirements in the PRC, including Annual Reporting Forms for Related Party Transaction ("**RPT Forms**"), CbC Reporting Form and Transfer Pricing Documentation ("**TPD**"), all of which are substantial changes to the previous rules.

CbC Reporting Form Requirements

The CbCR Reporting Forms are required for the Chinese resident enterprise if:

- it is the ultimate holding company of the group with combined revenues over RMB5.5 billion, or

- it is nominated as the CbCR Reporting Entity.

TPD Requirements

PN 42 adopts a three-tiered approach for TPD, including master file, local file and special issue file, and sets different thresholds for each file and type of transaction.

If the company meets either of the following criteria, a master file should be prepared:

- have cross-border related party transactions and belong to a group to which has prepared the master file, or

- the total amount of related party transactions exceeds RMB1 billion.

The threshold for the local file are dependent on the type of related party transactions, which are listed below.

- RMB200 million for tangible assets transfer (in the case of toll process, the amount in the annual customs record for toll processing should be included)

- RMB100 million for financial assets transfer

- RMB100 million for intangible assets transfer

- RMB40 million for other related party transaction in total

STA Public Notice [2017] No. 6

On 17 March 2017, the STA issued the Public Notice of the State Taxation Administration Regarding the Release of the "Administrative Measure for Special Tax Investigation Adjustments and Mutual Agreement Procedures" (STA Public Notice [2017] No. 6, hereinafter referred to as the "**PN 6**"). PN 6 provides rules on risk management, investigations and adjustments, administrative review and mutual agreement procedures regarding the special tax adjustment and other relevant issues.

PN 6 highlights the tax authorities' emphasis on strengthening the monitoring of enterprises' profit levels, and improving enterprises' compliance with the tax law through special tax adjustment monitoring and administration as well as special tax investigation adjustment.

PN 6 reinforces the transfer pricing administration on intercompany intangibles and services transactions, and provides certain methods and principles for investigations and adjustments. Taxpayers are advised to review and adjust, if necessary, their transfer pricing policies in such transactions to ensure compliance with the new rules.

Transfer pricing administration of intangibles transactions

PN 6 provides rules on transfer pricing of intangibles, and reinforces the general principle that "allocation of income generated by intangibles shall be commensurate with the commercial activities and contribution to its value creation". To allocate the income generated by intangibles, the enterprise is required to perform an analysis of value contributed by parties performing the functions of development, enhancement, maintenance, protection, exploitation and promotion of the intangibles. Compared with the development, enhancement, maintenance, protection, exploitation functions of intangibles in the OECD transfer pricing guidelines, PN 6 includes "promotion" as an important function. In addition, under Public Notice 6, a related party that only provides funding for the creation and exploitation of intangibles, but does not actually undertake relevant risks shall be entitled to only a reasonable return on the funding cost.

PN 6 introduces an important principle in relation to intangibles, and provides that "tax authorities may make special tax adjustments on royalties that are not commensurate with the economic benefit and result in a reduction in the taxable gross income or taxable income of enterprise or their related parties". Enterprises that have low profits or are even in a loss position while paying a royalty may face a heavy burden of proof to demonstrate the alignment between the royalty payment and its economic benefits, or the deduction of the royalty payment may be disallowed.

(D) Labour Protection in the PRC

According to the Labour Law of the PRC (《中華人民共和國勞動法》) (Order No. 28 of the President) (the "**Labour Law**"), which was promulgated by the Standing Committee of the National People's Congress on 5 July 1994, came into effect on 1 January 1995 and was amended on 27 August 2009 and 29 December 2018 respectively, an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labour safety and health system, stringently implement national protocols and standards on labour safety and health, conduct labour safety and health education for workers, guard against labour accidents and reduce occupational hazards. Labour safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labour protection gear that complies with labour safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Labourers engaged in special operations shall have received specialised training and obtained the pertinent qualifications. An employer shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on 29 June 2007, came into effect on 1 January 2008, and was amended on 28 December 2012, and the Implementation Regulations on Labour Contract Law (《勞動合同法實施條例》)(Order No. 535 of the State Council), which was promulgated on 18 September 2008 and became effective since the same day, regulate both parties through a labour contract, namely the employer and the employee, and contain specific provisions involving the terms of the labour contract. It is stipulated under the Labour Contract Law and the Implementation Regulations on Labour Contract Law that a labour contract must be made in writing. An employer and an employee may enter into a fixed-term labour contract, an un-fixed term labour contract, or a labour contract that concludes upon the completion of certain work assignments, after reaching agreement upon due negotiations. An employer may legally terminate a labour contract and dismiss its employees after reaching agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Labour contracts concluded prior to the enactment of the Labour Contract Law and subsisting within the validity period thereof shall continue to be honoured. With respect to a circumstance where a labour relationship has already been established but no formal contract has been made, a written labour contracts shall be entered into within one month from the effective date of the Labour Contract Law.

According to the Interim Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費征繳暫行條例》), the Regulations on Work Injury Insurance (《工傷保險條例》), the Regulations on Unemployment Insurance (《失業保險條例》) and the Trial Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》), enterprises in the PRC shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees. The Law on Social Insurance of the PRC (《中華人民共和國社會保險法》), which was promulgated on 28 October 2010, came into effect on 1 July 2011 and was amended on 29 December 2018, has combined pertinent provisions for basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

According to the Regulations on the Administration of Housing Provident Fund(《住房公積金管理條例》) (Order No. 262 of the State Council), which was promulgated and became effective on 3 April 1999, and was amended on 24 March 2002 and 24 March 2019, housing provident fund contributions by an individual employee and housing provident fund contributions by his or her employer shall belong to the individual employee.

The employer shall timely pay up and deposit housing provident fund contributions in full amount and late or insufficient payments shall be prohibited. The employer shall process housing provident fund payment and deposit registrations with the housing provident fund administration centre. With respect to companies who violate the above regulations and fail to process housing provident fund payment and deposit registrations or open housing provident fund accounts for their employees, such companies shall be ordered by the housing provident fund administration centre to complete such procedures within a designated period. Those who fail to process their registrations within the designated period shall be subject to a fine ranging from RMB10,000 to RMB50,000. When companies breach these regulations and fail to pay up housing provident fund contributions in full amount as due, the housing provident fund administration centre shall order such companies to pay up within a designated period, and may further apply to the People's Court for mandatory enforcement against those who still fail to comply after the expiry of such period.

(E) Foreign Exchange

The principal regulation governing foreign currency exchange in China is the Foreign Exchange Administration Rules of the PRC (《中華人民共和國外匯管理條例》) (the "**Foreign Exchange Administration Rules**"). It was promulgated by the State Council of the PRC on 29 January 1996 and with effect from 1 April 1996 and amended on 14 January 1997 and 5 August 2008. Under these rules, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans unless the prior approval by the competent authorities for the administration of foreign exchange is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and trading in securities, derivative products abroad are subject to registration with the competent authorities for the administration of foreign exchange and approval or filings with the relevant government authorities (if necessary).

According to the Circular on the Management of Offshore Investment and Financing and Round Trip Investment By Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (匯發[2014]37號) (the "**SAFE Circular 37**"), which is promulgated on 4 July 2014 and with effect from the same day, for the purpose of the SAFE Circular 37, "special purpose vehicle" refers to an overseas enterprise directly established or indirectly controlled by a domestic resident (including domestic institution and domestic individual residents) for the purpose of engaging in investment and financing with the domestic enterprise assets or interests he legally holds, or with the overseas assets or interests he legally holds. A "domestic individual resident" refers to a Chinese citizen who holds an ID card of Chinese domestic resident, military ID card, Armed Police ID card, as well as an overseas individual who has no legal identity within the territory of China but habitually resides within the territory of China due to reasons of economic interests. A domestic resident shall, before contributing the domestic and overseas lawful assets or interests to a special purpose vehicle, apply to the foreign exchange office for going through the procedures for foreign exchange registration of overseas investments.

(F) Regulations Relating to E-Commerce

According to Measures for the Supervision and Administration of Online Trading (《網絡交易監督管理辦法》) ("**the Measures**"), which was issued by SAMR on 15 March 2021 and became effective on 1 May 2021, the Measures shall apply to business activities involving the sale of commodities or provision of services through the Internet and other information networks as well as the supervision and administration thereof by market regulatory departments. No online trading business may engage in business operations without a licence or permit in violation of any law, regulation or decision of the State Council. Except under the circumstances where registration is not required as prescribed in Article 10 of the E-Commerce Law, an online trading business shall undergo market entity registration in accordance with the law. In addition, an online trading business shall disclose commodity or service information in a comprehensive, truthful, accurate and timely manner, and protect consumers' right to know and right to choose.

In 31 August 2018, the National People's Congress Standing Committee promulgated the E-Commerce Law (《電子商務法》), which took effect in 1 January 2019. The E-Commerce Law proposes a series of requirements on e-commerce operators, including third-party e-commerce platform operators, registered product or service providers of platforms, and online business operators operating through a self-built website or any other network. For example, the E-Commerce Law requires online business operators to clearly point out to consumers their tie-in sales in which additional services or products are added by merchants to a purchase, and not to assume consumers' consent to such tie-in sales by default. The E-Commerce Law also organised rules on e-commerce contact execution and performance between e-commerce product/service providers and customers.

Pursuant to the Provisions on Ecological Governance of Network Information Content* (《網絡信息內容生態治理規定》), which was promulgated in December 2019 and became effective in March 2020, producers of network information contents shall abide by laws and regulations, follow public order and good morals, and shall not harm national interests, public interests and the legitimate rights and interests of others.

Pursuant to the Administrative Measures for Livestreaming Market (for Trial Implementation)* (《網絡直播營銷管理辦法(試行)》), which was promulgated in April 2021 and became effective in May 2021, when engaging in livestreaming marketing activities, livestream marketers (for the purpose of these Measures, "livestream marketers" refer to individuals that directly engage in marketing to the public in online live-streaming marketing) shall abide by laws, regulations and the relevant state provisions, follow the public order and morals, and publish commodity or service information truthfully, accurately and comprehensively, and must not engage in, among others, (i) the publication of false and misleading information to deceive or mislead the users; or (ii) the marketing of products or goods which would infringe intellectual property rights or do not fulfill the requirements for personal and property safety; (iii) other acts in violation of the laws, regulations and relevant provisions of the State.

(G) Regulations relating to Personal Data or Privacy Protection

Pursuant to Cyber Security Law of the PRC (《中華人民共和國網絡安全法》), the "personal information" refers to all kinds of information recorded by electronic or otherwise that can be used to independently identify or be combined with other information to identify individuals' personal information including but not limited to: individuals' names, dates of birth, ID numbers, biologically identified personal information, addresses and telephone numbers, etc. The Cyber Security Law also provides that: (i) to collect and use personal information, network operators shall follow the principles of legitimacy, rightfulness and necessity, disclose rules of data collection and use, clearly express the purposes, means and scope of collecting and using the information, and obtain the consent of the persons whose data is gathered; (ii) network operators shall neither gather personal information unrelated to the services they provide, nor gather or use personal information in violation of the provisions of laws and administrative regulations or the scopes of consent given by the persons whose data is gathered; and shall dispose of personal information they have saved in accordance with the provisions of laws and administrative regulations and agreements reached with users; (iii) network operators shall not divulge, tamper with or damage the personal information they have collected, and shall not provide the personal information to others without the consent of the persons whose data is collected. However, if the information has been processed and cannot be recovered and thus it is impossible to match such information with specific persons, such circumstance is an exception. Furthermore, under the Cyber Security Law, network operators of key information infrastructure generally shall, during their operations in the PRC, store the personal information and important data collected and produced within the territory of the PRC.

The Administrative Measures on Internet Information Services prohibit ICP service operators from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. Under the Several Provisions on Regulating the Market Order of Internet Information Services (《規範互聯網信息服務市場秩序若干規定》), issued by the MIIT in 2011, an ICP operator may not collect any user personal information or provide any such information to third parties without the consent of a user, unless otherwise stipulated by laws and administrative regulations. An ICP service operator must expressly inform the users of the method, content and purpose of the collection and processing of such user personal information and may only collect such information necessary for the provision of its services. An ICP service operator is also required to properly keep the user personal information, and in case of any leak or likely leak of the user personal information, the ICP service operator must take immediate remedial measures and, in severe circumstances, to make an immediate report to the telecommunications regulatory authority. In addition, pursuant to the Decision on Strengthening the Protection of Online Information (《關於加強網絡信息保護的決定》) issued by the Standing Committee of the National People's Congress in December 2012 and the Order for the Protection of Telecommunication and Internet User Personal Information (《電信和互聯網用戶個人信息保護規定》) issued by the MIIT in July 2013, any collection and use of user personal information must be subject to the consent of the user, abide by the principles of legality, rationality and necessity and be within the specified purposes, methods and scopes. An ICP service operator must also keep such information strictly confidential, and is further prohibited from divulging, tampering or destroying of any such information, or selling or proving such information to other parties. Any violation of the above decision or order may subject the ICP service operator to warnings, fines, confiscation of illegal gains, revocation of licences, cancellation of filings, closedown of websites or even criminal liabilities. Furthermore, in June 2016, the Cyberspace Administration of China issued the Administrative Provisions on Mobile Internet Applications Information Services (《移動互聯網應用程序信息服務管理規定》), which became effective on 1 August 2016, to further strengthen the regulation of the mobile app information services. Pursuant to these provisions, owners or operators of mobile apps that provide information services are required to be responsible for information security management, establish and improve the protective mechanism for user information, observe the principles of legality, rightfulness and necessity, and expressly state the purpose, method and scope of, and obtain user consent to, the collection and use of users' personal information. In addition, the new Cyber Security Law also requires network operators to strictly keep confidential users' personal information that they have collected and to establish and improve user information protective mechanism. On 28 November 2019, the Secretary Bureau of the Cyberspace Administration of China, the General Office of the Ministry of Industry and Information Technology, the General Office of the Ministry of Public Security and the General Office of the SAMR promulgated the Method for Identifying the Illegal Collection and Use of Personal Information by Apps (《APP違法違規收集使用個人信息行為認定方法》), which provides guidance for the regulatory authorities to identify the illegal collection and use of personal information through mobile apps, and for the app operators to conduct self-examination and self-correction and for other participants to voluntarily monitor compliance. The Method for Identifying the Illegal Collection and Use of Personal Information by Apps lists six types of illegal collection and usage of personal information, including "failure to publish rules on the collection and usage of personal information", "failure to expressly state the purpose, manner and scope of the collection and usage of personal information", "collecting and using personal information without obtaining consents from users", "collecting personal information irrelevant to the services provided", "providing personal information to other parties without obtaining consent" and "failure to provide the function of deleting or correcting personal information as required by law or failure to publish the methods for complaints and reports or other information".

On 22 August 2019, the Cyberspace Administration of China (the "**CAC**") issued the Provisions on the Cyber Protection of Children's Personal Information (《兒童個人信息網絡保護規定》, which became effective on 1 October 2019 and apply to the collection, storage, use, transfer and disclosure of the personal information of the minors under the age of 14, or the Children, via the Internet. According to the Law of the PRC on the Protection of Minors (2020 Revision) (《中華人民共和國未成年人保護法(2020修訂)》), which became effective on 1 June 2021, information processors must follow the principles of legality, legitimacy and necessity when processing personal information of minors via internet, and must obtain consent from minors' parents or other guardians when processing personal information of minors under age of 14. In addition, internet service providers must promptly alert upon the discovery of publishing private information by minors via the internet and take necessary protective measures.

On 29 August 2015, the SCNPC issued the Ninth Amendment to the Criminal Law (《刑法修正案(九)》), effective on 1 November 2015. Any internet service provider that fails to comply with obligations related to internet information security administration as required by applicable laws and refuses to rectify upon order shall be subject to criminal penalty for (i) any large-scale dissemination of illegal information; (ii) any severe consequences due to the leakage of the user information; (iii) any serious loss of criminal evidence; or (iv) other severe circumstances. Furthermore, any individual or entity that (i) sells or distributes personal information in a manner which violates relevant regulations, or (ii) steals or illegally obtains any personal information is subject to criminal penalty in severe circumstances.

On 20 August 2021, the Standing Committee of the National People's Congress issued the Personal Information Protection Law of the PRC* (《中華人民共和國個人信息保護法》) (the "**Personal Information Protection Law**"), which became effective on 1 November 2021. The Personal Information Protection Law sets forth detailed rules on handling personal information and legal responsibilities, including but not limited to the scope of personal information and the ways of processing personal information, the establishment of rules for processing personal information, and the individual's rights and the processor's obligations in the processing of personal information. The Personal Information Protection Law also strengthens the punishment for those who illegally process personal information. We will take measures to ensure compliance of personal information collection and protection, and these measures shall meet the requirements of the Personal Information Protection Law in all material aspects, for example, formulating the privacy policy (隱私政策) for our new online platform to obtain users' consent at the time of account registration and obtain their consent again when the privacy policy is modified, which inform the users of the identity and contact information of the processor of personal information, the purpose of the processing of personal information, the manner of processing, type of personal information processed, the retention period, the manner and procedures for individuals to exercise their rights under this law and other information prescribed by the relevant laws. In addition, we will formulate and implement the internal specification to manage the security vulnerability and arrange auditing as well as providing users with infringement complaint channels.

OUR HISTORY

Our Group's history can be traced back to 2001 when our founder, Mr. Hui, founded our principal operating subsidiary, Semk Products, which was initially focused on the design business upon its incorporation. In 2005, Mr. Hui created our signature character B.Duck and commenced the retail business for B.Duck featured consumer merchandise. In order to maximise the use and coverage of our B.Duck IPs, we began to develop our character licensing business through licensing our B.Duck character to licensees for use in consumer merchandise and promotional items in Hong Kong since 2011. Over the years, we have expanded our character licensing business to the PRC and other countries. Building on our strength in character merchandise and promotion licensing services, we have extended to selling B.Duck Family Characters-featured products through third-party e-commerce platforms in the PRC in 2015 to satisfy our customers' needs online. In addition, to a lesser extent, we sell products in bulk to some corporate customers directly and to our fans through certain consignment stores during the Track Record Period.

The popularity of B.Duck has driven us to create and launch new characters by adding new members to the B.Duck Family Characters, such as Buffy, B.Duck Baby, Dong Duck and Bath'N Duck.

The following is a summary of our key business development milestones:

Year	Milestone
2001	• Mr. Hui founded Semk Products
2005	• B.Duck was created
2011	• We commenced our character licensing business by licensing B.Duck IPs for third party use in merchandises and promotional and marketing events
2012	• Our character licensing business expanded to South Korea
2013	• Our character licensing business expanded to the PRC and Malaysia
	• We started our content and media business by crossing over with "Tower of Saviors ("神魔之塔")" mobile game primarily in Hong Kong as well as featuring in a credit card programme
2014	• We expanded our character licensing business into Thailand
2015	• We licensed B.Duck IPs to an international fast food chain for organising B.Duck themed birthday party in their restaurants in Hong Kong
	• We commenced our e-commerce business by launching our first online flagship store on Tmall, a well-known business to customer online shopping platform in China

2016	•	We licensed B.Duck IPs to China Everbright Bank to be used on their credit cards in China
2017	•	We commercially launched Buffy and B.Duck Baby
2018	•	We entered into a design consultation service contract with Nanjing Overseas Chinese Town to collaborate on a B.Duck-featured theme park in Nanjing
	•	We rolled out Dong Duck
2019	•	We rebranded and relaunched an existing character, namely Bath'N Duck
2020	•	We partnered with Shenzhen Tencent Computer Systems Company Limited for our B.Duck to feature in "Game for Peace" (和平精英) and its related marketing materials
	•	We jointly developed and distributed our B.Duck featured products with Beijing Imperial Palace Culture Development Co., Ltd.* (北京故宮宮廷文化發展有限公司)

Our Company

Our Company was incorporated on 10 December 2020 as an exempted company in the Cayman Islands with limited liability. Our Company has a number of wholly-owned subsidiaries incorporated or established in the BVI, Hong Kong and the PRC. Details of the subsidiaries and their respective history are set out below.

Our subsidiaries and major operating entities

Semk International

Semk International was incorporated on 7 August 2015 in the BVI as a business company with limited liability with 50,000 shares at US$1.00 issued and allotted to Semk Global at par. On 6 September 2016, Semk Global transferred 5,000 shares to OJ VC at par. On 13 September 2016, Semk International issued and allotted a further 5,625 shares to Semk Global and 625 shares to OJ VC at par. As a result, Semk Global and OJ VC held 50,625 shares and 5,625 shares in Semk International, respectively which also represented 90% and 10% of the then issued shares of Semk International, respectively. The aforementioned transfer of Semk International shares to OJ VC and issue and allotment of the shares in Semk International to OJ VC at par was due to OJ VC having initially invested HK$14.4 million in Semk Holdings, one of our Controlling Shareholders. For details of the pre-IPO investment by OJ VC, see "Investments by Former Investors" in this section.

In addition to the investment by OJ VC, pursuant to the Reorganisation and between September 2016 and April 2017, our Group introduced Wong's International (through their indirect wholly-owned subsidiary, Top Plenty), Regal Hotels (through their indirect wholly-owned subsidiary, Wealthy Smart), Premier Noble and Sky Planner as our pre-IPO investors. For details of our pre-IPO investments, see "Investments by Former Investors" and "Investments by the Pre-IPO Investors" in this section. Immediately upon completion of the pre-IPO investment by Sky Planner in Semk International, Semk International was owned as to 68% by Semk Global, 9% by OJ VC, 10% by Top Plenty, 4% by Wealthy Smart, 7% by Premier Noble and 2% by Sky Planner.

Further, pursuant to the reorganisation of character licensing business, Semk Global, OJ VC, Top Plenty, Wealthy Smart, Premier Noble and Sky Planner transferred the entire issued shares in Semk International to Semk Cayman in consideration of and in exchange of shares of Semk Cayman, see "A. Part 1: Reorganisation — (ix) Share Exchange" in this section for more details. Pursuant to the reorganisation of e-commerce and other business, our Company became the sole shareholder of Semk International, see "B. Part 2: Reorganisation — (v) Transfer of the character licensing business to our Group from Semk Cayman" in this section for details. As at the Latest Practicable Date, Semk International was directly and wholly-owned by our Company.

Semk International is an investment holding company and does not currently conduct any business activity.

Semk Investment

Semk Investment was incorporated in Hong Kong on 18 August 2015 as a limited liability company with one share at HK$1.00 each allotted to Semk International. Since its incorporation and up to the Latest Practicable Date, Semk Investment has been directly and wholly-owned by Semk International. Pursuant to the Reorganisation, Semk Investment became an indirect wholly-owned subsidiary of our Company.

Semk Investment is an investment holding company and does not currently conduct any business activity.

Semk Products

Semk Products was incorporated in Hong Kong on 14 November 2001 as a limited liability company. As at the date of incorporation, 2,600 shares, 2400 shares and 2,500 shares were allotted and issued to Mr. Hui, Mr. Hui Ha Wing (the brother of Mr. Hui) and an Independent Third Party, respectively. The then shareholders of Semk Products conducted various transfers and in 2017 and as a result Semk Products became a direct wholly-owned subsidiary of Semk Investment.

Semk Products has been one of the operating subsidiaries of our Group in Hong Kong and, as a result of the Reorganisation, became an indirect wholly-owned subsidiary of our Company.

Before the Reorganisation, Semk Products principally conducted the character licensing business, wholesaling, trading and/or exporting of consumer merchandise and promotional items business and retail store business primarily in Hong Kong. As a result of the Reorganisation, Semk Products mainly conducts the character licensing business.

Semk Hong Kong

Semk Hong Kong was incorporated in Hong Kong on 20 June 2007 as a limited liability company. On the date of incorporation, one share in Semk Hong Kong was allotted and issued to Semk Products at HK$1.00 each. On 20 June 2007, 99 shares were further allotted and issued to Semk Products at HK$1.00 each. On 19 January 2010, 100 shares were transferred to Semk Holdings at nominal consideration of HK$100. On 7 February 2017, Semk Investment acquired the entire issued share capital of Semk Hong Kong from Semk Holdings at a nominal consideration of HK$100 and Semk Hong Kong became a wholly-owned subsidiary of Semk Investment.

Semk Hong Kong has been one of the operating subsidiaries of our Group in Hong Kong and as a result of the Reorganisation, became an indirect wholly-owned subsidiary of our Company.

Before the Reorganisation, Semk Hong Kong principally conducted the character licensing business, wholesaling, trading and/or exporting of consumer merchandise and promotional items business and retail store business primarily in Hong Kong. As a result of the Reorganisation, Semk Hong Kong mainly conducts the character licensing business.

Semk Licensing

Semk Licensing was established in the PRC with a registered capital of RMB8 million on 14 March 2016 and the sole owner of its equity interests is Semk Products. As at the Latest Practicable Date, the registered capital of Semk Licensing has not been paid up. The registered capital shall be fully paid up within 10 years from its business licence date pursuant to the articles of association of Semk Licensing.

Semk Licensing has been one of the operating subsidiaries of our Group in the PRC and as a result of the Reorganisation, became an indirect wholly-owned subsidiary of our Company in the PRC. Semk Licensing mainly provides character licensing services in the PRC.

Semk Fuzhou

Semk Fuzhou was established in the PRC with a registered capital of RMB1 million on 14 September 2018 and the sole owner of its equity interests is Semk Licensing. As at the Latest Practicable Date, the registered capital of Semk Fuzhou has not been paid up. The registered capital shall be paid up on or before 1 August 2048 pursuant to the articles of association of Semk Fuzhou.

Semk Fuzhou is an indirect wholly-owned subsidiary of our Company. As at the Latest Practicable Date, Semk Fuzhou had not yet commenced any business activity. Semk Fuzhou will provide character licensing services in the PRC.

Semk BVI

Semk BVI was incorporated on 10 December 2020 in the BVI as a business company with limited liability with one share of no par value issued and allotted to our Company. As part of the reorganisation in relation to the e-commerce and other business, on 26 March 2021, our Company transferred its entire shares in Semk BVI to Semk Products by (i) transferring its entire shares in Semk BVI to Semk International; (ii) Semk International transferring its entire shares in Semk BVI to Semk Investment; and (iii) Semk Investment transferring its entire shares in Semk BVI to Semk Products. As a result, Semk BVI became a wholly-owned subsidiary of Semk Products and an indirect wholly-owned subsidiary of our Company.

Semk BVI is an investment holding company and does not currently conduct any business activity.

ENS Holdings

ENS Holdings was incorporated in Hong Kong on 18 August 2015 as a limited liability company. As at the date of incorporation, one share in ENS Holdings was allotted and issued to ENS International at HK$1.00 each. As part of the reorganisation in relation to the e-commerce and other business, ENS International transferred its entire share capital in ENS Holdings to Semk BVI by (i) transferring its entire share capital in ENS Holdings to our Company on 10 March 2021; and (ii) our Company transferring our entire share capital in ENS Holdings to Semk BVI on 11 March 2021. Throughout the Track Record Period, ENS Holdings was controlled by Semk Global, one of our Controlling Shareholders.

ENS Holdings mainly trades toys and accessories in Hong Kong. As a result, ENS Holdings became a wholly-owned subsidiary of Semk BVI and an indirect wholly-owned subsidiary of our Company.

ENS Business

ENS Business was incorporated in Hong Kong on 12 August 2016 as a limited liability company. As at the date of incorporation, one share in ENS Business was allotted and issued to ENS Holdings at HK$1.00 each and it became a wholly-owned subsidiary of ENS Holdings.

ENS Business mainly trades toys and accessories in Hong Kong. As a result of the Reorganisation, ENS Holdings became an indirect wholly-owned subsidiary of our Company.

ENS IT

ENS IT was established in the PRC with a registered capital of HK$0.5 million on 10 October 2015 and the sole owner of its equity interests is ENS Holdings. On 22 February 2017, the registered capital of ENS IT was increased to HK$1.5 million. HK$0.5 million was paid up and the remaining HK$1.0 million shall be fully paid up within 10 years from its business licence date pursuant to the articles of association of ENS IT.

ENS IT has been one of the operating subsidiaries of our Group in the PRC and, as a result of the Reorganisation, became an indirect wholly-owned subsidiary of our Company. ENS IT mainly trades apparels, toys and accessories on e-commerce platform in the PRC.

ENS Retailing

ENS Retailing was established in the PRC with a registered capital of RMB100,000 on 23 December 2016 and the sole owner of its equity interests is ENS IT. As at the Latest Practicable Date, the registered capital of ENS Retailing has not been paid up. The payment schedule of the registered capital shall be determined by the shareholder of ENS Retailing in accordance with business need pursuant to the articles of association of ENS Retailing.

ENS Retailing has been one of the operating subsidiaries of our Group in the PRC and, as a result of the Reorganisation, became an indirect wholly-owned subsidiary of our Company. ENS Retailing mainly trades toys and accessories in the PRC.

ENS Promotion

ENS Promotion was established in the PRC with a registered capital of RMB0.1 million on 17 February 2017 and the sole owner of its equity interests is ENS IT. On 24 November 2017, the registered capital of ENS Promotion was increased to RMB1.0 million. As at the Latest Practicable Date, the registered capital of ENS Promotion has not been paid up. The payment schedule of the registered capital shall be determined by the shareholder of ENS Promotion in accordance with business need pursuant to the articles of association of ENS Promotion.

ENS Promotion has been one of the operating subsidiaries of our Group in the PRC and, as a result of the Reorganisation, became an indirect wholly-owned subsidiary of our Company. ENS Promotion mainly trades toys and accessories on e-commerce platform in the PRC.

ENS Trend

ENS Trend was established in the PRC with a registered capital of RMB1 million on 21 May 2018 and the sole owner of its equity interests is ENS IT. As at the Latest Practicable Date, the registered capital of ENS Trend has not been paid up. The payment schedule of the registered capital shall be determined by the shareholder of ENS Trend in accordance with business need pursuant to the articles of association of ENS Trend.

ENS Trend became an indirect wholly-owned subsidiary of our Company as a result of the Reorganisation. ENS Trend mainly trades apparel and accessories on e-commerce platforms in the PRC.

ENS Fashion

ENS Fashion was established in the PRC with a registered capital of RMB1 million on 22 May 2018 and the sole owner of its equity interests is ENS IT. As at the Latest Practicable Date, the registered capital of ENS Fashion has not been paid up. The payment schedule of the registered capital shall be determined by the shareholder of ENS Fashion in accordance with business need pursuant to the articles of association of ENS Fashion.

ENS Fashion became an indirect wholly-owned subsidiary of our Company as a result of the Reorganisation. As at the Latest Practicable Date, ENS Fashion had not yet commenced any business activity. ENS Fashion will trade apparel and accessories on e-commerce platforms in the PRC.

ENS Lishui

ENS Lishui was established in the PRC with a registered capital of RMB1 million on 31 May 2021 and the sole owner of its equity interests is ENS IT. As at the Latest Practicable Date, the registered capital of ENS Lishui has not been paid up. The registered capital shall be paid up on or before 18 May 2026 pursuant to the articles of association of ENS Lishui.

ENS Lishui mainly trades apparel and accessories on e-commerce platforms in the PRC.

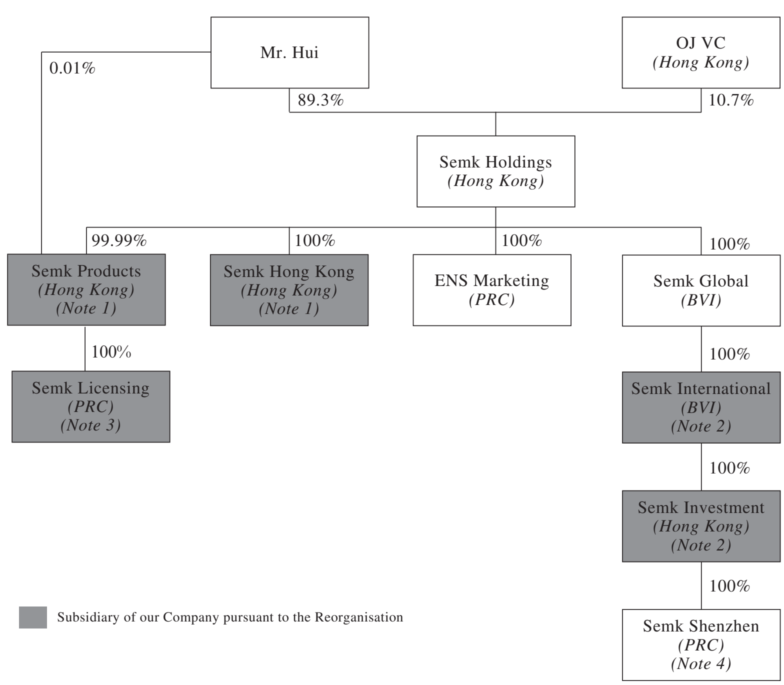
ENS Hangzhou

ENS Hangzhou was established in the PRC with a registered capital of RMB0.5 million on 4 August 2021 and the sole owner of its equity interests is ENS IT. As at the Latest Practicable Date, the registered capital of ENS Hangzhou has not been paid up. The registered capital shall be paid up on or before 31 December 2041 pursuant to the articles of association of ENS Hangzhou.

As at the Latest Practicable Date, ENS Hangzhou had not yet commenced any business activity. ENS Hangzhou will trade apparel and accessories on e-commerce platforms in the PRC.

REORGANISATION

The following chart sets forth our corporate and shareholding structure immediately before the Reorganisation.



Notes:

1. Before the Reorganisation, Semk Products and Semk Hong Kong were principally engaged in the character licensing business, wholesaling, trading and/or exporting of consumer merchandise and promotional items business and retail store business (i.e. e-commerce and other business). As a result of the Reorganisation, Semk Products and Semk Hong Kong mainly conducts on our character licensing business.

2. Semk International and Semk Investment are investment holding companies and do not currently engage in any business activity.

3. Since its establishment, Semk Licensing has been principally engaging in the character licensing business in PRC.

4. Before the Reorganisation, Semk Shenzhen was dormant. Semk Shenzhen had been deregistered on 24 January 2019.

Prior to the Reorganisation, our Group carries out character licensing business, wholesaling, trading and/or exporting of consumer merchandise and promotional items business and the retail store business. Reorganisation of our Group was conducted in two major parts: (i) in order to concentrate on the development of our character licensing business, our Group disposed the retail store business and transferred e-commerce and other business to be held under separate holding vehicle in 2017; and (ii) in preparation of the Listing, our Group underwent further reorganisation to include e-commerce and other business in our Group in 2021. Key steps of our Reorganisation are as follows:

A. Part 1: Reorganisation of character licensing business

(i) Transferring the entire shareholding of OJ VC in Semk Holdings to Semk International

See "Investments by Former Investors" in this section for details of the transfer of the entire shareholding of OJ VC in Semk Holdings to Semk International.

(ii) Transfer of character licensing business to our Group from ENS Marketing

On 1 October 2016, ENS Marketing completed the transfer of its character licensing business and certain assets and liabilities in the PRC to Semk Licensing, one of our principal operating subsidiaries, with a fair value of approximately RMB2.01 million as at 30 June 2016, which was settled in full through distribution to Semk Licensing.

(iii) Transfer of the e-commerce and other business to ENS Business

On 29 December 2016, Semk Products and Semk Hong Kong completed the transfers of our e-commerce and other business carried on by them respectively, and certain assets and liabilities in Hong Kong to ENS Business, based on a carrying value of the assets and liabilities of the e-commerce and other business as at 30 June 2016 of approximately HK$4.0 million and HK$6.3 million, respectively, which were settled in full through distribution to ENS Business.

(iv) Disposal of the retail store business

The scale of our then retail store business was small in early 2017 as we only had total three and 14 outlets in Hong Kong and the PRC, respectively. After assessing the costs involved in carrying on retail store business, the then retail store business in Hong Kong and the PRC were disposed to interested parties which were Independent Third Parties in 2017 in order to focus our resources on our major revenue generating business segment, namely character licensing business.

On 20 January 2017, our then retail store business carried on by and certain assets and liabilities in Hong Kong by Semk Products and Semk Hong Kong were transferred to an Independent Third Party at a consideration of approximately HK$0.4 million and HK$0.2 million, respectively, which was based on the respective carrying values of the assets and liabilities of our retail store business in Hong Kong as at 30 June 2016. The aforesaid considerations of the said business transfers were settled in full on 1 November 2017.

On 6 March 2017, ENS Marketing, which carried on our then retail store business in the PRC, was transferred to an Independent Third Party at a consideration of approximately RMB9.3 million. The aforesaid consideration was based on the respective carrying values of the assets and liabilities of our retail store business in the PRC as at 30 June 2016. The aforesaid considerations of the said transfer were settled in full by 24 November 2017.

(v) Acquisition of the entire issued share capital of Semk Hong Kong and Semk Products by Semk Investment

On 7 February 2017, Semk Investment acquired the entire issued capital of Semk Hong Kong, comprising 100 issued shares, from Semk Holdings at a nominal consideration of HK$100, which were settled in full on the same day.

On 7 February 2017, Semk Investment acquired the entire issued capital of Semk Products, comprising 1 issued share and 9,999 issued shares, from Mr. Hui and Semk Holdings respectively at a nominal consideration of HK$1 and HK$9,999 respectively, which were settled in full on the same day.

Upon completion of the acquisitions on 7 February 2017, both Semk Hong Kong and Semk Products became indirect wholly-owned subsidiaries of Semk International.

(vi) Deregistration of Semk Shenzhen

Semk Shenzhen was established in the PRC as a limited liability on 10 October 2015 and prior to its deregistration, it was wholly-owned by Semk Investment. Given that Semk Shenzhen had no operation and with a view to streamlining the structure of our Group, Semk Shenzhen was deregistered on 24 January 2019.

(vii) Establishment of Semk Fuzhou

Semk Fuzhou was established in the PRC as a limited liability with a registered capital of RMB1 million on 14 September 2018. See "Our subsidiaries and major operating entities — Semk Fuzhou" in this section for more information on Semk Fuzhou.

(viii) First round of investments

OJ VC, our former investor initially invested in Semk Holdings in March 2013. See "Investments by Former Investors" in this section for details of OJ VC's investment in our Group.

During our first round of investments which was completed in April 2017, our Group introduced Wong's International (through their indirect wholly-owned subsidiary Top Plenty), Regal Hotels (through their indirect wholly-owned subsidiary, Wealthy Smart), Premier Noble and Sky Planner as our investors. Immediately upon completion of the investment by Sky Planner, Semk International was owned as to 68% by Semk Global, 9% by OJ VC, 10% by Top Plenty, 4% by Wealthy Smart, 7% by Premier Noble and 2% by Sky Planner.

(ix) Share Exchange

Pursuant to the Share Exchange Agreement, Semk Global, OJ VC, Top Plenty, Wealthy Smart, Premier Noble and Sky Planner agreed to transfer the entire issued shares in Semk International to Semk Cayman in consideration of and in exchange for 42,499 shares to Semk Global, 5,625 shares to OJ VC, 6,250 Shares to Top Plenty, 2,500 Shares to Wealthy Smart, 4,375 Shares to Premier Noble and 1,250 Shares to Sky Planner credited as fully paid, respectively. Upon completion of the Share Exchange Agreement on 25 February 2019, Semk Cayman was owned as to 68% by Semk Global, 9% by OJ VC, 10% by Top Plenty, 4% by Wealthy Smart, 7% by Premier Noble and 2% by Sky Planner.

(x) Termination of investment by Premier Noble and Wealthy Smart

On 16 September 2019 and 6 April 2020, Premier Noble and Wealthy Smart entered into termination agreements with Semk Global, respectively, pursuant to which the investment by Premier Noble and Wealthy Smart would be terminated by transferring their respective shareholding in Semk Cayman, namely, 4,375 shares and 2,500 shares, to Semk Global. See "Investments by Former Investors" in this section for details of the termination of investment by Premier Noble and Wealthy Smart.

Immediately upon termination of the pre-IPO investment by Premier Noble and Wealthy Smart, Semk Cayman was owned as to 79% by Semk Global, 9% by OJ VC, 10% by Top Plenty and 2% by Sky Planner.

(xi) Termination of investment by OJ VC

On 25 January 2021, OJ VC entered into agreements with Semk Cayman and ENS International, pursuant to which the pre-IPO investment made by OJ VC would be terminated by Semk Cayman and ENS International repurchasing OJ VC's entire shareholding in Semk Cayman and ENS International, namely, 5,625 shares of Semk Cayman and 5,000 shares of ENS International, respectively. See "Investments by Former Investors" in this section for details of the termination of pre-IPO investments. Immediately upon termination of the investment by OJ VC, Semk Cayman was owned as to approximately 86.81% by Semk Global, 10.99% by Top Plenty and 2.20% by Sky Planner and ENS International was owned as to 100% by Semk Global.

Reasons for including the e-commerce and other business in our Group

According to the Frost & Sullivan Report, the penetration rate of e-commerce experienced a rapid growth from 2015 to 2020, reaching 26.0% in 2020. The outbreak of COVID-19 acted as a catalyst which further increased the penetration rate of e-commerce as it drastically changed consumer spending behaviour. Customers tend to browse and/or purchase character IP products through online channels rather than offline channels. The penetration rate of e-commerce is expected to further grow to 27.7% in 2025. Our Directors believe that inclusion of e-commerce and other business will allow our Group to capture both online and offline opportunities and create synergy effect since our Group will be able to obtain more first-hand information regarding merchandise sales through e-commerce platform such as customers' spending habit, preference and feedback on merchandise. We believe the inclusion of our e-commerce and other business in our Group also paves the way to establish brand new and unified fans platform with the aim to enhance the stickiness of our B.Duck fans.

B. Part 2: Reorganisation of e-commerce and other business

(i) Incorporation of our Company

On 10 December 2020, our Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of US$50,000 divided into 50,000 Shares of a par value of US$1.00 each of which one Share was issued to an initial subscriber, which transferred the one Share to ENS International on the same date. Following such transfer, the then entire issued share capital of our Company was owned by ENS International.

(ii) Incorporation of Semk BVI

On 10 December 2020, Semk BVI was incorporated in the British Virgins Islands as a business company with limited liability and it was authorised to issue a maximum of 50,000 shares of one class of no par value. One share was issued to our Company on 31 December 2020. The then entire issued shares of Semk BVI was owned by our Company.

(iii) Acquisition of 2% of the issued share capital of ENS International by Sky Planner

On 4 March 2021, Sky Planner acquired 2% of the issued shares of ENS International, comprising 900 issued shares from Semk Global at a consideration of approximately HK$2.25 million, which were settled in full on 8 March 2021. See "Investments by the Pre-IPO Investors" in this section for details of our pre-IPO investments.

Upon completion of the acquisition, ENS International was owned as to 98% and 2% by Semk Global and Sky Planner, respectively.

(iv) Acquisition of the entire issued share capital of ENS Holdings by our Company

ENS International transferred ENS Holdings to Semk BVI by:

(a) our Company acquiring the entire issued capital of ENS Holdings, comprising one issued share, from ENS International on 10 March 2021. In consideration, our Company allotted 99 new shares, credited as fully paid, to ENS International; and

(b) Semk BVI acquiring the entire issued capital of ENS Holdings, comprising one issued share, from our Company on 11 March 2021. In consideration, Semk BVI allotted 99 new shares, credited as fully paid, to our Company.

Upon completion of the acquisition on 11 March 2021, ENS Holdings became indirect wholly-owned subsidiary of the Company.

(v) Transfer of the character licensing business to our Group from Semk Cayman

On 19 March 2021, the character licensing business was transferred to our Group by our Company acquiring the entire issued shares of Semk International, comprising 62,500 issued shares, from Semk Cayman. In consideration, our Company allotted 577 issued shares, credited as fully paid, to Semk Cayman.

Immediately after the transfer on 19 March 2021, Semk International became a direct wholly-owned subsidiary of the Company.

(vi) Transfer of Semk BVI to Semk Products

On 26 March 2021, Semk BVI, which was an investment holding company that held the operating subsidiaries of the e-commerce and other business, was transferred by our Company to Semk Products by:

(i) Semk International acquiring the entire issued shares of Semk BVI, comprising 100 issued shares, from our Company. In consideration, Semk International allotting 2,500 new shares, credited as fully paid, to our Company;

(ii) Semk Investment acquiring the entire issued shares of Semk BVI, comprising 100 issued shares, from Semk International. In consideration, Semk Investment allotting one new share, credited as fully paid, to Semk International; and

(iii) Semk Products acquiring the entire issued shares of Semk BVI, comprising 100 issued shares, from Semk Investment. In consideration, Semk Products allotting 1,000 new shares, credited as fully paid, to Semk Investment.

Upon completion of the transfer on 26 March 2021, Semk BVI became a direct wholly-owned subsidiary of Semk Products.

(vii) Distribution in specie

On 29 March 2021, the board of directors of Semk Cayman and ENS International declared a special dividend by way of distribution in specie of their entire shareholding in our Company to Semk Global, Top Plenty and Sky Planner in proportion to their respective shareholdings in Semk Cayman and ENS International.

As a result, the total issued capital of our Company comprised of US$10,000 divided into 10,000 Shares were held as to 88.46%, 9.37% and 2.17% by Semk Global, Top Plenty and Sky Planner.

(viii) Second round of investments

During our second round of pre-IPO investments which were completed in April 2021 and July 2021, our Group introduced Wisdom Thinker, Unite Way and City Legend as our pre-IPO investors. See "Investments by the Pre-IPO Investors" in this section for details of our pre-IPO investments. As one of the condition precedents of the pre-IPO investments made by Wisdom Thinker and Unite Way, all the issued and unissued Shares with par value of US$1.00 each were subdivided into 100 Shares of US$0.01 each on 14 April 2021. Accordingly, following the completion of the subdivision, our authorised share capital became US$50,000 divided into 5,000,000 Shares of US$0.01 each with an issued share capital of US$10,000 divided into 1,000,000 Shares in issue. Immediately upon completion of the second round of investments by Wisdom Thinker, Unite Way and City Legend, our Company was owned as to 75.36% by Semk Global, 9.04% by Top Plenty, 2.66% by Wisdom Thinker, 2.10% by Sky Planner, 1.34% by Unite Way and 9.50% by City Legend.

(ix) Increase in the authorised share capital of our Company, Share Subdivision, Capitalisation Issue and Global Offering

On 20 December 2021, our Shareholders resolved that, among others, conditional upon the grant of the listing approval (the "**Listing Approval**") for the Listing of and permission to deal in the Shares on the Main Board of the Stock Exchange, each of the existing issued and unissued ordinary shares of par value of US$0.01 in the share capital of our Company be subdivided into 400 ordinary shares with a par value of US$0.000025 each such that the authorised share capital of our Company would be US$50,000 divided into 2,000,000,000 Shares of par value of US$0.000025 each.

Conditional upon the share premium account of our Company being credited as a result of the Global Offering, a sum of US$11,637.30 standing to the credit of the share premium account of our Company will be capitalised and applied to paying up in full 465,492,000 Shares to be allotted and issued to all the then existing Shareholders in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then shareholdings in our Company.

Conditional upon the grant of the Listing Approval, our Company will offer 120,000,000 Shares, being an aggregate of approximately 12.0% of total issued share capital of our Company (as enlarged by the Share Subdivision, the Shares offered under the Global Offering and Shares issued under the Capitalisation Issue but excluding the Shares which may be issued upon exercise of the Over-allotment Option and the share options which may be granted under Share Option Scheme adopted by our Company).

After the Listing Approval is granted, the Shares will be listed on the Main Board of the Stock Exchange.

INVESTMENTS BY FORMER INVESTORS

OJ VC

Pursuant to a deed of grant of share warrant dated 28 March 2013 as supplemented on 31 August 2016, Semk Holdings granted and OJ VC subscribed two tranches of share warrants of Semk Holdings at a consideration of HK$14.4 million. The consideration was determined based on the estimated earnings before interest and taxes for the year ended 31 December 2013. Such consideration was fully settled on 28 March 2013, 9 September 2013, 26 March 2014, 9 April 2014 and 25 June 2014. On 6 September 2016, the share warrants were converted into 120,000 shares of Semk Holdings, representing approximately 10.71% of the then issued share capital of Semk Holdings.

Pursuant to the Reorganisation, on 6 September 2016, the two share warrants were converted into 120,000 shares of Semk Holdings, representing approximately 10.71% of the then issued share capital of Semk Holdings which were purchased by Mr. Hui at par and on the same day, Semk Global transferred 5,000 shares of Semk International and 5,000 shares of ENS International to OJ VC at par. On 13 September 2016, Semk International immediately after completion of such further allotment, issued and allotted a further 5,625 shares to Semk Global and 625 shares to OJ VC at par. As a result, (i) Semk Global and OJ VC held 50,625 shares and 5,625 shares in Semk International, respectively which represented 90% and 10% of the then issued share capital of Semk International, respectively; and (ii) Semk Global and OJ VC held 45,000 shares and 5,000 shares in ENS International, respectively which represented 90% and 10% of the then issued share capital of ENS International, respectively.

In 2019, our Group became aware that there were legal disputes relating to the beneficial ownership of OJ VC's shareholding in Semk Cayman and ENS International. In or around 2019, it came to our Group's knowledge that OJ VC entered into agreements with three individuals, who are Independent Third Parties, without the knowledge or consent of our Group and Mr. Hui, pursuant to which these individuals made cash payments to OJ VC and agreed that part of OJ JV's shareholding in our Group was held on trust for them in proportion to their cash contribution. In order to fully settle such litigation proceedings, (i) OJ VC; (ii) Mary J Venture Capital Limited, the sole shareholder of OJ VC; and (iii) Mr. Wong Chung Mang Jonah and Ms. Lo Sze Man, who were the ultimate beneficial owners of OJ VC, entered into agreements with Semk Cayman and ENS International, pursuant to which the investment made by OJ VC would be terminated by Semk Cayman and ENS International repurchasing OJ VC's entire shareholding in Semk Cayman and ENS International. On 25 January 2021, (i) Semk Cayman repurchased 5,625 shares from OJ VC at a consideration of approximately HK$25.4 million (which took into account of a dividend in the sum of HK$1,350,000 declared by Semk Cayman in 2020); and (ii) ENS International repurchased 5,000 shares from OJ VC at a consideration of approximately HK$3.4 million, which were both settled in full on the same day. As such, the consideration represented approximately twice the initial consideration paid by OJ VC. The parties took into account of the uncertainties brought by the legal disputes and the valuation of our Group at the time of the investment when determining the consideration. Following the repurchase of OJ VC's entire shareholding in Semk Cayman and ENS International which was completed in January 2021, OJ VC ceased to have any relationship with our Group.

Regal Hotels (through Wealthy Smart)

Pursuant to a share purchase agreement dated 29 December 2016 as supplemented on 24 February 2017, Wealthy Smart agreed to acquire 2,500 old shares of Semk International from Semk Global, representing the then 4% issued share capital of Semk International at an initial consideration of approximately HK$12.3 million. The initial consideration, which was determined based on the expected valuation of the character licensing business as at 31 December 2016, was subsequently adjusted as the subscription agreement dated 29 December 2016 (as amended by a supplemental agreement) contained a price adjustment clause, pursuant to which Wealthy Smart was required to compensate Semk Global by way of additional cash consideration if the net profit of Semk International and its subsidiaries for the year ended 31 December 2016 was higher than expected. The adjusted consideration was fully settled on 29 December 2016 and 3 March 2017. On 30 December 2016, the said share transfer was completed and 2,500 old shares of Semk International were transferred to Wealthy Smart.

At around the time of its investment, Wealthy Smart was a business company incorporated with limited liability in the BVI and was wholly-owned by Regal Hotels, a company listed on the Main Board of the Stock Exchange (Stock Code: 0078) and principally engages in the hotel operations and management and property development business.

Due to inability to agree on the Listing timetable, Wealthy Smart decided to exercise the buy-back option and cancel its investment in our Group and as such a termination agreement has been entered into on 6 April 2020, pursuant to which the pre-IPO investment made by Wealthy Smart would be terminated. On 7 April 2020, Wealthy Smart transferred 2,500 shares of Semk Cayman to Semk Global at a consideration of approximately HK$14.5 million, represented an annual return of 6% simple interest on the purchase price paid less after tax dividend received by Wealthy Smart, which was settled in full on 6 April 2020 by Semk Holdings.

Premier Noble

Pursuant to a share purchase agreement dated 24 January 2017 as supplemented on 24 February 2017, Premier Noble agreed to acquire 4,375 old shares of Semk International from Semk Global, representing 7% of the issued share capital of Semk International at an initial consideration of approximately HK$21.6 million. The initial consideration, which was determined based on the expected valuation of the character licensing business as at 31 December 2016, was subsequently adjusted as the subscription agreement dated 24 January 2017 (as amended by a supplemental agreement) contained a price adjustment clause, pursuant to which Premier Noble was required to compensate Semk Global by way of additional cash consideration if the net profit of Semk International and its subsidiaries for the year ended 31 December 2016 was higher than expected. The adjusted consideration was settled on 4 January 2017, 26 January 2017 and 6 March 2017. On 1 February 2017, the said share transfer was completed and 4,375 old shares were transferred to Premier Noble.

At around the time of its investment, Premier Noble was a business company incorporated with limited liability in the BVI and was wholly-owned by Mr. Yan Kam Cheong.

Due to inability to agree on the Listing timetable, Premier Noble decided to exercise the buy-back option and cancel its investment in our Group and as such it has provided a letter of warranty and undertaking on 16 September 2019, pursuant to which the investment made by Premier Noble would be terminated. On 17 September 2019, Premier Noble transferred 4,375 shares of Semk Cayman to Semk Global at a consideration of approximately HK$24.45 million, represented an annual return of 6% simple interest on the purchase price paid less after tax dividend received by Premier Noble, which was settled in full on 16 September 2019 by Semk Holdings.

INVESTMENTS BY THE PRE-IPO INVESTORS

Investment by Wong's International (through Top Plenty)

Pursuant to share subscription agreement dated 22 August 2016 and as supplemented on 19 September 2016, Wong's International agreed to subscribe 6,250 new shares of Semk International representing the then 10% issued share capital of Semk International at an initial consideration of HK$30.80 million. The initial consideration, which was determined based on the estimated valuation of the character licensing business as at 31 December 2016, was subsequently adjusted as the subscription agreement dated 22 August 2016 (as amended by a supplemental agreement) contained a price adjustment clause, pursuant to which Wong's International was required to compensate Semk Global by way of additional cash consideration if the net profit of Semk International and its subsidiaries for the year ended 31 December 2016 was higher than expected. The adjusted consideration was settled on 21 September 2016 and 6 March 2017. On 21 September 2016, the said share allotment was completed and 6,250 new shares of Semk International were allotted to Top Plenty, an indirect wholly-owned subsidiary of Wong's International.

Top Plenty is a limited liability company incorporated in Hong Kong and is indirectly and wholly-owned by Wong's International, a company listed on the Main Board of the Stock Exchange (Stock Code: 0099) and engages in electronic manufacturing, original design and manufacturing and property investment business.

Our Group became acquainted with Wong's International in 2016 when we granted a licence for the use of our B.Duck trademarks to one of their subsidiaries, Wong's F&B Limited, to be used on beverages from 1 July 2016 to 31 December 2018. The revenue charged to our Group by Wong's F&B Limited amounted to approximately HK$40,000 and HK$40,000 for the years ended 31 December 2017 and 2018, respectively. To the best knowledge and belief of our Directors, apart from the aforesaid business transaction, Pre-IPO Investment, Mr. Wong Yin Shun Vincent who is our non-executive Director and a director of Semk International, there is no past or present relationship (including but not limited to employment, financing and family relationships) between (a) Wong's International, its directors, senior management or any of their respective associates with (b) our Group, its subsidiaries, its shareholders, directors, senior management or any of their respective associates. Since Wong's International is a company listed on the Stock Exchange (Stock Code: 0099), our Directors are of the view that the pre-IPO Investment by Wong's International will raise the profile of our Group and also allow our Group to benefit from potential business opportunities.

Sky Planner

Pursuant to a share purchase agreement dated 28 March 2017, Sky Planner agreed to acquire 1,250 old shares of Semk International from Semk Global, representing 2% of the issued share capital of Semk International at a consideration of approximately HK$7.58 million. On 12 April 2017, 1,250 old shares of Semk International were transferred to Sky Planner and such consideration was settled on the same day.

Pursuant to a share purchase agreement dated 4 March 2021, Sky Planner agreed to acquire 900 old shares of ENS International from Semk Global, representing 2% of the issued share capital of ENS International at a consideration of approximately HK$2.25 million. On 4 March 2021, 900 old shares of ENS International were transferred to Sky Planner and such consideration was settled on 8 March 2021.

Sky Planner is a business company incorporated with limited liability in the BVI and is wholly-owned as to 50% by Mr. Tsang Kin Chung Terry and as to 50% by Mr. Tsang Kin Ho. Sky Planner principally engages in investment holding.

Our Group became acquainted with Mr. Tsang Kin Chung Terry and Mr. Tsang Kin Ho in 2013 when we granted a licence for the use of our B.Duck trademarks to Mad Head Limited, a company controlled by Mr. Tsang Kin Chung Terry and Mr. Tsang Kin Ho to be used on the mobile app named "Tower of Saviors" (神魔之塔) from 1 September 2013 to 31 August 2015. To the best knowledge and belief of our Directors, (i) apart from the aforesaid business transaction and Pre-IPO Investment, there is no past or present relationship (including but not limited to employment, financing and family relationships) between (a) Tsang Kin Chung Terry, Mr. Tsang Kin Ho, Sky Planner, its directors, senior management or any of their respective associates with (b) our Group, its subsidiaries, its shareholders, directors, senior management or any of their respective associates. Since Mr. Tsang Kin Ho and Tsang Kin Chung Terry are founders of Mad Head Limited which operates and owns the trademarks of "Towers of Saviors" (神魔之塔), our Directors are of the view that our Group will benefit from opportunities in content and media licensing.

Wisdom Thinker

Pursuant to a share purchase agreement dated 14 April 2021, Wisdom Thinker agreed to acquire 26,600 Shares from Semk Global, representing 2.66% of the issued share capital of our Company at a consideration of HK$39.90 million. On 15 April 2021, 26,600 Shares were transferred to Wisdom Thinker and such consideration was settled on the same day. In accordance with the anti-dilution clause stipulated in the Shareholders' Agreement, 965 Shares were transferred to Wisdom Thinker by Semk Global upon the completion of the pre-IPO investment made by City Legend at nil consideration. On 9 July 2021, a supplemental agreement was entered between Wisdom Thinker, Semk Global and our Company (the "**Wisdom Thinker Supplemental Agreement**"), pursuant to which Semk Global is required to provide profit guarantee of the Company by payment of cash compensation to Wisdom Thinker in the event that the audited net profit of the Group is lower than expected for each of the financial years ended 31 December 2021 and 2022. See "Principal terms of our Pre-IPO Investments" in this section for details of the profit guarantee.

Wisdom Thinker Limited was incorporated under the laws of the British Virgin Islands with limited liability and is an investment holding company wholly-owned by Dr. Lee Ka-kit. Dr. Lee Ka-kit is the co-chairman and the co-managing director of Henderson Land Development Company Limited, a company listed on the Main Board of Stock Exchange (Stock Code: 0012) ("**Henderson Land**").

Our Group became acquainted with Wisdom Thinker in January 2021 through introduction by China Everbright Securities. To the best knowledge and belief of our Directors, apart from Wisdom Thinker's pre-IPO investment, there is no past or present relationship (including but not limited to employment, financing and family relationships) between (a) Dr. Lee Ka-kit and Wisdom Thinker, its directors, senior management or any of their respective associates with (b) our Group, its subsidiaries, its shareholders, directors, senior management or any of their respective associates. Since Dr. Lee Ka-kit is the co-chairman and the co-managing director of Henderson Land, our Directors are of the view that the pre-IPO investment by Wisdom Thinker will raise the profile of our Group and also allow our Group to benefit from potential business opportunities.

Unite Way

Pursuant to a share purchase agreement dated 14 April 2021, Unite Way agreed to acquire 13,400 Shares from Semk Global, representing 1.34% of the issued share capital of our Company at a consideration of HK$20.10 million. On 15 April 2021, 13,400 Shares were transferred to Unite Way and such consideration was settled on 17 April 2021. In accordance with the anti-dilution clause stipulated in the Shareholders' Agreement, 486 Shares were transferred to Unite Way by Semk Global upon the completion of the pre-IPO investment made by City Legend at nil consideration. On 9 July 2021, a supplemental agreement was entered between Unite Way, Semk Global and our Company (the "**Unite Way Supplemental Agreement**"), pursuant to which Semk Global is required to provide profit guarantee of the Company by payment of cash compensation to Unite Way in the event that the net profit of the Group is lower than expected for each of the financial years ended 31 December 2021 and 2022. See "Principal terms of our Pre-IPO Investments" in this section for details of the profit guarantee.

Unite Way is a business company incorporated with limited liability in the BVI and is owned as to 51% by Mr. Lee Yi Kei and as to 49% by Mr. Ho Kin Wan. Unite Way principally engages in investment holding. Mr. Lee Yi Kei and Mr. Ho Kin Wan are professional investors. Mr. Lee is the chief investment officer of TM House Asset Management Limited. Mr. Ho has over 15 years of experience working in various SFC-licensed financial institutions such as HSBC Broking Securities (Asia) Limited.

Our Group became acquainted with Mr. Lee Yi Kei and Mr. Ho Kin Wan in March 2021 through introduction by China Everbright Securities. To the best knowledge and belief of our Directors, apart from Unite Way's pre-IPO investment, there is no past or present relationship (including but not limited to employment, financing and family relationships) between (a) Mr. Lee Yi Kei, Mr. Ho Kin Wan, Unite Way, its directors, senior management or any of their respective associates with (b) our Group, its subsidiaries, its shareholders, directors, senior management or any of their respective associates. Since Mr. Lee Yi Kei and Mr. Ho Kin Wan are professional investors who has over 10 years in the finance industry, our Directors are of the view that the pre-IPO investment by Unite Way will diversify our Company's shareholder base and enhance the corporate governance of our Company.

City Legend

Pursuant to an investment agreement dated 7 July 2021 (the "**City Legend Investment Agreement**"), City Legend agreed to (i) acquire 62,176 Shares from Semk Global, representing 6.0% of the enlarged issued share capital of our Company; and (ii) subscribe for 36,270 new Shares, representing 3.5% of the enlarged issued share capital of our Company, at a consideration of approximately HK$90 million and HK$52.5 million, respectively. On 9 July 2021, 62,176 Shares were transferred by Semk Global to City Legend and 36,270 new Shares were allotted and issued by our Company to City Legend. The aforesaid consideration was settled on 9 July 2021.

Pursuant to the City Legend Investment Agreement, Semk Global provided profit guarantee to City Legend, details of which are set out in "Principal terms of our Pre-IPO Investments" in this section. Semk Global has also granted rights relating to director nomination and redemption and provided undertakings on restriction on transfer and lock-up to City Legend. Such rights and undertakings are similar to those set out in the Amended and Restated Shareholders' Agreement. See "Special Rights and Obligations under the Amended and Restated Shareholders' Agreement" in this section for details of such rights.

Pursuant to the City Legend Investment Agreement, our Company agreed to use reasonable endeavours to establish business cooperation with City Legend and OCT Limited on provision of services, namely intellectual property licensing, sales events of cross-over products, design consultation, product sales and other services as agreed subject to all applicable laws and provided that the Directors will not breach their fiduciary duties. The parties will agree on the terms of cooperation, if appropriate, upon separate discussion. In this connection, our Company has entered into a strategic cooperation framework agreement with OCT (Asia) on 15 July 2021 in respect of mutual intention on deepening strategic cooperation between the parties.

City Legend is a limited liability company incorporated in Hong Kong and is indirectly and wholly-owned by OCT (Asia), a company listed on the Main Board of the Stock Exchange (Stock Code: 3366) which engages in comprehensive development, equity investment and fund management. OCT (Asia) is in turn indirectly and non-wholly owned by OCT Limited, a company listed on the Shenzhen Stock Exchange (Stock Code: 000069.SZ) which engages in integrated tourism business and real estate business.

Our Group became acquainted with OCT Limited in 2018 when Nanjing Overseas Chinese Town, a wholly-owned subsidiary of OCT Limited, entered into a design consultation service contract with our Group to collaborate on a B.Duck-featured theme park in Nanjing. In 2020, our Group also entered into a LBE licensing agreement with Guangdong Shunde Overseas Chinese Town Industrial Development Co., Ltd.* (廣東順德華僑城實業發展有限公司) ("**Shunde OCT**"), which is a non-wholly-owned subsidiary of OCT Limited, to collaborate on a B.Duck-featured marketing event. To the best knowledge and belief of our Directors, apart from the aforesaid business transactions, pre-IPO investment and Mr. Chen Hongjiang who is our non-executive Director, there is no past or present relationship (including but not limited to employment, financing and family relationships) between (a) City Legend, Nanjing Overseas Chinese Town, Shunde OCT, OCT (Asia), OCT Limited, their respective directors, senior management or any of their respective associates and (b) our Group, our subsidiaries, shareholders, directors, senior management or any of their respective associates. Since OCT (Asia) and OCT Limited are companies listed on the Stock Exchange (Stock Code: 3366) and Shenzhen Stock Exchange (Stock Code: 000069.SZ), respectively, our Directors are of the view that the pre-IPO investment by OCT Limited will raise the profile of our Group and also allow our Group to benefit from potential business opportunities.

Principal terms of our Pre-IPO Investments

The principal terms and conditions of the investment of each of our Pre-IPO Investors are as follows:

Name of Pre-IPO Investor	Wong's International (through Top Plenty)	Sky Planner	Wisdom Thinker	Unite Way	OCT Limited (through City Legend)
Ultimate beneficial owners of the Pre-IPO Investors	Wong's International	Mr. Tsang Kin Chung Terry and Mr. Tsang Kin Ho	Dr. Lee Ka-kit	Mr. Lee Yi Kei and Mr. Ho Kin Wan	OCT Limited
Background of the Pre-IPO Investors	Wong's International is a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 0099)	Mr. Tsang Kin Chung Terry and Mr. Tsang Kin Ho are founders of Mad Head Limited which operates and owns the trademarks of "Tower of Saviors" (神魔之塔)	Dr. Lee Ka-kit is the co-chairman and the co-managing director of Henderson Land, which is a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 0012)	Mr. Lee Yi Kei and Mr. Ho Kin Wan are professional investors. Mr. Lee is the founder and the chief investment officer of TM House Asset Management Limited. Mr. Ho worked at HSBC Brokerage Services (Asia) Limited as a director from 1982 to 2014	OCT Limited is a company whose shares are listed on the Shenzhen Stock Exchange (Stock Code: 000069) OCT (Asia) is a company whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 3366)
Date of relevant agreement	22 August 2016 and 19 September 2016	28 March 2017 and 4 March 2021	14 April 2021 and 9 July 2021	14 April 2021 and 9 July 2021	7 July 2021
Number of Shares	6,250 new shares of Semk International	1,250 old shares of Semk International 900 old shares of ENS International	27,565 old shares of our Company	13,886 old shares of our Company	62,176 old shares and 36,270 new shares of our Company
Shareholding in our Company to be held by Pre-IPO Investor *(Approximately)*					
— after Share Subdivision and Capitalisation Issue but before Listing	9.04%	2.10%	2.66%	1.34%	9.50%
— upon Listing *(Note 1)*	7.96%	1.84%	2.34%	1.18%	8.36%
Valuation at the time of the Pre-IPO investment	Character licensing business valuation: HK$331.8 million *(Note 2)*	Character licensing business valuation: HK$379.2 million *(Note 3)* E-commerce and other business valuation: HK$112.4 million *(Note 4)*	Character licensing business and e-commerce and other business valuation: HK$1,500 million *(Note 5)*	Character licensing business and e-commerce and other business valuation: HK$1,500 million *(Note 5)*	Character licensing business and e-commerce and other business valuation: HK$1,500 million *(Note 5)*
Total amount of consideration paid *(Approximately)*	HK$33.18 million	Character licensing business: HK$7.58 million E-commerce and other business: HK$2.25 million	HK$39.90 million	HK$20.10 million	HK$142.50 million
Source of fund for the Pre-IPO investment	internal resources	personal resources	personal resources	personal resources	internal resources

Name of Pre-IPO Investor	Wong's International (through Top Plenty)	Sky Planner	Wisdom Thinker	Unite Way	OCT Limited (through City Legend)
Utilisation status of the proceeds of the Pre-IPO investment	Fully utilised	Not applicable since the pre-IPO investment is by way of purchasing old shares of Semk International.	Not applicable since the pre-IPO investment is by way of purchasing old shares of our Company	Not applicable since the pre-IPO investment is by way of purchasing old shares of our Company	The proceeds in relation to the subscription of 36,270 new shares of our Company are intended to be utilised towards our general working capital. As at the Latest Practicable Date, none of the proceeds from the pre-IPO investment had been utilised. The proceeds in relation to the purchase of the 62,176 old shares of our Company are not applicable.
Payment date of consideration	21 September 2016 and 6 March 2017	13 April 2017 and 8 March 2021	15 April 2021	17 April 2021	9 July 2021
Basis of determination of the consideration	The consideration was determined based on arm's length negotiations primarily with reference to our historical earnings and future prospects of our Group.				
Cost per share and discount to the Offer Price *(Approximately)*	HK$0.42 per Share after Share Subdivision and Capitalisation Issue. Assuming an Offer Price of HK$2.75 per Offer Share (being the mid-point of the indicative Offer Price range), the price paid by the Pre-IPO Investor is equivalent to a discount of approximately 84.7% to such price per Offer Share.	HK$0.53 per Share after Share Subdivision and Capitalisation Issue. Assuming an Offer Price of HK$2.75 per Offer Share (being the mid-point of the indicative Offer Price range), the price paid by the Pre-IPO Investor is equivalent to a discount of approximately 80.7% to such price per Offer Share.	HK$1.70 per Share after Share Subdivision and Capitalisation Issue. Assuming an Offer Price of HK$2.75 per Offer Share (being the mid-point of the indicative Offer Price range), the price paid by the Pre-IPO Investor is equivalent to a discount of approximately 38.2% to such price per Offer Share. *(Note 5)*	HK$1.70 per Share after Share Subdivision and Capitalisation Issue. Assuming an Offer Price of HK$2.75 per Offer Share (being the mid-point of the indicative Offer Price range), the price paid by the Pre-IPO Investor is equivalent to a discount of approximately 38.2% to such price per Offer Share. *(Note 5)*	HK$1.70 per Share after Share Subdivision and Capitalisation Issue. Assuming an Offer Price of HK$2.75 per Offer Share (being the mid-point of the indicative Offer Price range), the price paid by the Pre-IPO Investor is equivalent to a discount of approximately 38.2% to such price per Offer Share. *(Note 5)*
Use of proceeds from the pre-IPO investment	Development of the character licensing business and working capital of our Group.	Not applicable. The investments by Sky Planner was by way of purchasing old shares in Semk International and ENS International from Semk Global.	Not applicable. The investment by Wisdom Thinker was by way of purchasing old shares of our Company from Semk Global.	Not applicable. The investment by Unite Way was by way of purchasing old shares of our Company from Semk Global.	Working capital of our Group. Please also refer to "Utilisation status of the proceeds of the Pre-IPO investment" in this table.
Strategic benefits to our Group	Our Directors are of the view that we can expand our shareholder base and benefit from the pre-IPO investors' commitment to our Group and their investments demonstrate their confidence in our operation and serve as an endorsement of our performance, strength and prospects.				
Profit guarantee	Not applicable	Not applicable	2021 profit guarantee *(Note 6)*: HK$75,000,000 2022 profit guarantee *(Note 6)*: HK$85,000,000	2021 profit guarantee *(Note 6)*: HK$75,000,000 2022 profit guarantee *(Note 6)*: HK$85,000,000	2021 profit guarantee *(Note 6)*: HK$75,000,000 2022 profit guarantee *(Note 6)*: HK$85,000,000

Notes:

1. The shareholding percentages are calculated on the basis of the number of Shares to be held by the Pre-IPO Investors immediately after the completion of the Global Offering, the Share Subdivision and the Capitalisation Issue (but without taking into account Shares which may allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme).

2. Our Group commenced negotiations with Wong's International in 2016 on its pre-IPO investment in our Company when our Group's business was at a smaller scale and therefore invested at lower valuation than other pre-IPO investors. The initial consideration, which was determined based on the estimated valuation of the character licensing business as at 31 December 2016 (represented a price-to-earnings ratio of 14 times of estimated net profit of the character licensing business for the year ended 31 December 2016), was subsequently adjusted as the subscription agreement dated 22 August 2016 (as amended by a supplemental agreement) contained a price adjustment clause, pursuant to which Wong's International was required to compensate Semk Global by way of additional cash consideration if the net profit of Semk International and its subsidiaries for the year ended 31 December 2016 was higher than expected.

3. Despite the valuation of Sky Planner's pre-IPO investment in our character licensing business was based on the actual valuation of the character licensing business as at 31 December 2016 (represented a price-to-earnings ratio of 16 times of actual net profit of the character licensing business for the year ended 31 December 2016). The valuation is higher than that of Wong's International since negotiations with Sky Planner only commenced in 2017 which was subsequent to negotiations with Wong's International and our Group offered smaller portion of shareholding to Sky Planner when compared to Wong's International.

4. Sky Planner wished to invest in our e-commerce and other business in 2021 and the valuation of the e-commerce and other business as at 31 December 2020 was used for valuation.

5. The consideration was determined based on the valuation of the character licensing business and e-commerce and other business as at 31 December 2020 (represented a price-to-earnings ratio of 25 times of the adjusted net profit under non-HKFRS financial measures of the character licensing business and e-commerce and other business for the year ended 31 December 2020). Our Directors are of the view that our Group can be benefited from the Pre-IPO Investments as they serve as an endorsement of our Group's performance, strength and prospects, which can assist us in broadening our shareholder base. In addition, considering the experience of the management team of Wisdom Thinker, Unite Way and City Legend in business management and investment and coupled with their business network, the Directors are of the view that they will be able to bring benefits to our Group by providing recommendations on investments and business development.

6. Pursuant to the City Legend Investment Agreement, the Wisdom Thinker Supplemental Agreement and the Unite Way Supplemental Agreement, Semk Global shall procure our Company to achieve the following performance targets of the Group:

   2021 profit guarantee: The audited consolidated net profit of our Company for the year ending 31 December 2021, after excluding government subsidies (income tax expenses derived from such government subsidies should not be excluded), listing fees and share-based payments (the "**Actual 2021 Net Profit**"), shall not be less than HK$75,000,000 (the "**Expected 2021 Net Profit**").

   2022 profit guarantee: The audited consolidated net profit of our Company for the year ending 31 December 2022, after excluding government subsidies (income tax expenses derived from such government subsidies should not be excluded), listing fees and share-based payments (the "**Actual 2022 Net Profit**"), shall not be less than HK$85,000,000 (the "**Expected 2022 Net Profit**").

Semk Global shall pay to each of Wisdom Thinker, Unite Way and City Legend as compensation an amount determined as follows (the "**Profit Guarantee Compensation**"):

A x (B – C)/B – D

A = The pre-IPO investors' respective benchmark investment amount. The benchmark investment amount is calculated by (i) dividing the shareholding of the relevant Pre-IPO Investor as at date of the issuance of the audited consolidated financial statements by the shareholding of the relevant Pre-IPO Investor on the respective closing dates of their investments or the dates of the supplemental agreements (as the case may be) and (ii) multiplying the result in (i) by the consideration paid by the relevant Pre-IPO Investor under their respective investment agreements.

B = The Expected 2021 Net Profit or the Expected 2022 Net Profit (as the case may be)

C = The Actual 2021 Net Profit or the Actual 2022 Net Profit (as the case may be)

D = Any cash compensation received in the previous year, if any

The profit guarantees above do not constitute any profit forecast of our Group under Rules 11.16 to 11.19 of the Listing Rules, and the profit guarantee amount should not be regarded in any way as an indication of the projected profit of our Group for the relevant financial year.

Semk Global will be solely responsible for settling the Profit Guarantee Compensation to Wisdom Thinker, Unite Way and City Legend in the form of cash using its internal resources in the event that our Company fails to achieve the Expected 2021 Net Profit and/or the Expected 2022 Net Profit. Therefore, there will not be any impact on our business operations and financial position in the event that our Group fails to achieve the Expected Net Profits.

Special Rights and Obligations under the Amended and Restated Shareholders' Agreement

The Shareholders' Agreement was superseded by the Amended and Restated Shareholders' Agreement which was entered into among Semk Global, our Company and the Pre-IPO Investors. Set forth below are certain material special rights granted to our Pre-IPO Investors pursuant to the Amended and Restated Shareholders' Agreement.

– Redemption right

If our Company, its holding company or our subsidiaries (i) cannot achieve a listing of its shares on the Main Board of the Stock Exchange with a minimum pre-offering valuation of our Company of not less than HK$1,800 million within one year from the closing date of the pre-IPO investments by Wisdom Thinker and Unite Way (i.e. by 14 April 2022); and (ii) there is material violation of relevant laws and regulations, material integrity breach by Mr. Hui or any members of our Group or any breach of the Amended and Restated Shareholders' Agreement, which threatens the listing of the Company's shares, the shares in its holding company or its subsidiary (as the case may be) on the Main Board, the Pre-IPO Investors shall have the right to request Semk Global or any parties nominated by it (which shall not be our Company or any of our subsidiaries) to buy-back the relevant shares. The price of the buy-back shares are as follows:

(i) in the case of Top Plenty and Sky Planner, shall be based on an annual return of 6% simple interest on such purchase price less after tax dividend, if any, received by Top Plenty and Sky Planner; and

(ii) in the case of Wisdom Thinker, Unite Way and City Legend, shall be based on an annual return of 8% simple interest on such purchase price less (i) after tax dividend and (ii) cash compensation received under the Profit Guarantee Compensation, if any, received by Wisdom Thinker, Unite Way and City Legend.

The obligations and liabilities of Semk Global to buy-back the relevant shares from the Pre-IPO Investors were secured by separate personal guarantee given by Mr. Hui, as the sole shareholder of Semk Global.

– Restriction on transfer and lock-up

The Pre-IPO Investors, being Top Plenty, Sky Planner, Wisdom Thinker, Unite Way and City Legend, shall not at any time during the period commencing from the date of submission of the listing application by our Company and ending on the expiry of six months immediately after the Listing Date, transfer all or any part of their respective Shares to any third party.

Semk Global shall not at any time during the period commencing from the date of submission of the listing application by our Company and ending on the expiry of 12 months immediately after the Listing Date, transfer all or any part of its Shares to any third party and it will not hold less than 30% of our Shares during the period of 24 months immediately following the expiration of the first 12-Month lock-up period.

– Pre-emptive rights

If our Company issue any Share or security or incur any obligation which is by its terms convertible into or exchangeable or exercisable for Shares, unless such issue is approved by the Pre-IPO Investors, each of the Pre-IPO Investors has an option to subscribe for the Shares, in proportion to their respective shareholding in our Company, at the same price, terms and conditions.

– Right of first refusal

If any of the Shareholders to the Amended and Restated Shareholders' Agreement proposes to transfer any of the Shares to a third party purchaser, each of such other Shareholders shall have a right of first refusal to purchase such shares on the same price, term and condition as the proposed third-party transfer.

– Tag-along right

In case Semk Global is to transfer all or any part of its Shares to any third party and such sale, if completed, would result in Semk Global ceasing to hold 50% of all the issued Shares, the Pre-IPO Investors have the right to sell all Shares held by them to such third party at a price no less than the highest price per Share offered to Semk Global.

– Directors nomination right

Semk Global has the right to nominate at least four Directors and each of Top Plenty and City Legend has the right to nominate one Director. Top Plenty and City Legend have exercised their respective nomination right and Mr. Wong Yin Shun Vincent and Mr. Chen Hongjiang were appointed as non-executive Directors on 28 April 2021 and 22 October 2021, respectively.

Semk Global further undertakes to nominate and vote for a candidate designated by City Legend as Director (and to vote for such individual's removal as Director if requested by City Legend) (the "**Semk Global's Undertaking**"), provided that City Legend has not cumulatively reduced the number of Shares it holds by more than 50% of the total number of Shares subscribed and acquired by City Legend under the City Legend Investment Agreement (as adjusted in accordance with any change in share capital).

– Anti-dilution right

If our Company is to issue any share or any security or incur any obligation which is by its terms convertible into or exchangeable or exercisable for Shares to any third party at a price lower than the relevant valuation for the relevant Pre-IPO Investor, then Semk Global shall compensate (i) Top Plenty and Sky Planner by way of share compensation; and (ii) Wisdom Thinker, Unite Way and City Legend by way of either (a) cash compensation or (b) share compensation at nil or minimal consideration transferred from Semk Global (to the extent permitted by relevant laws and regulations) as elected by City Legend in its sole discretion.

Except for the restriction of transfer on the Pre-IPO Investors, which will end on the expiry of the six months immediately after the Listing Date, all other special rights granted to the Pre-IPO Investors will be terminated upon Listing. The Semk Global's Undertaking, which constitutes private arrangement between two Shareholders, is not subject to the Interim Guidance, Guidance Letter HKEX-GL43-12 and Guidance Letter HKEX-GL44-12 and it will not be terminated upon Listing. For the avoidance of doubt, the restriction on transfer and lock-up imposed on Semk Global will not be terminated upon Listing. See "Special Rights and Obligations under the Amended and Restated Shareholders' Agreement — Restriction on transfer and lock-up" in this section for further details.

Save as disclosed above, there are no other side agreements, understanding, arrangements or undertakings, verbal or in writing, between our Company (including any of our subsidiaries, their directors, shareholders, senior management or any of their respective associates) and each of the Pre-IPO Investors (including their beneficial owners and directors), in relation to their investments in our Group, that are subsisting.

Public float

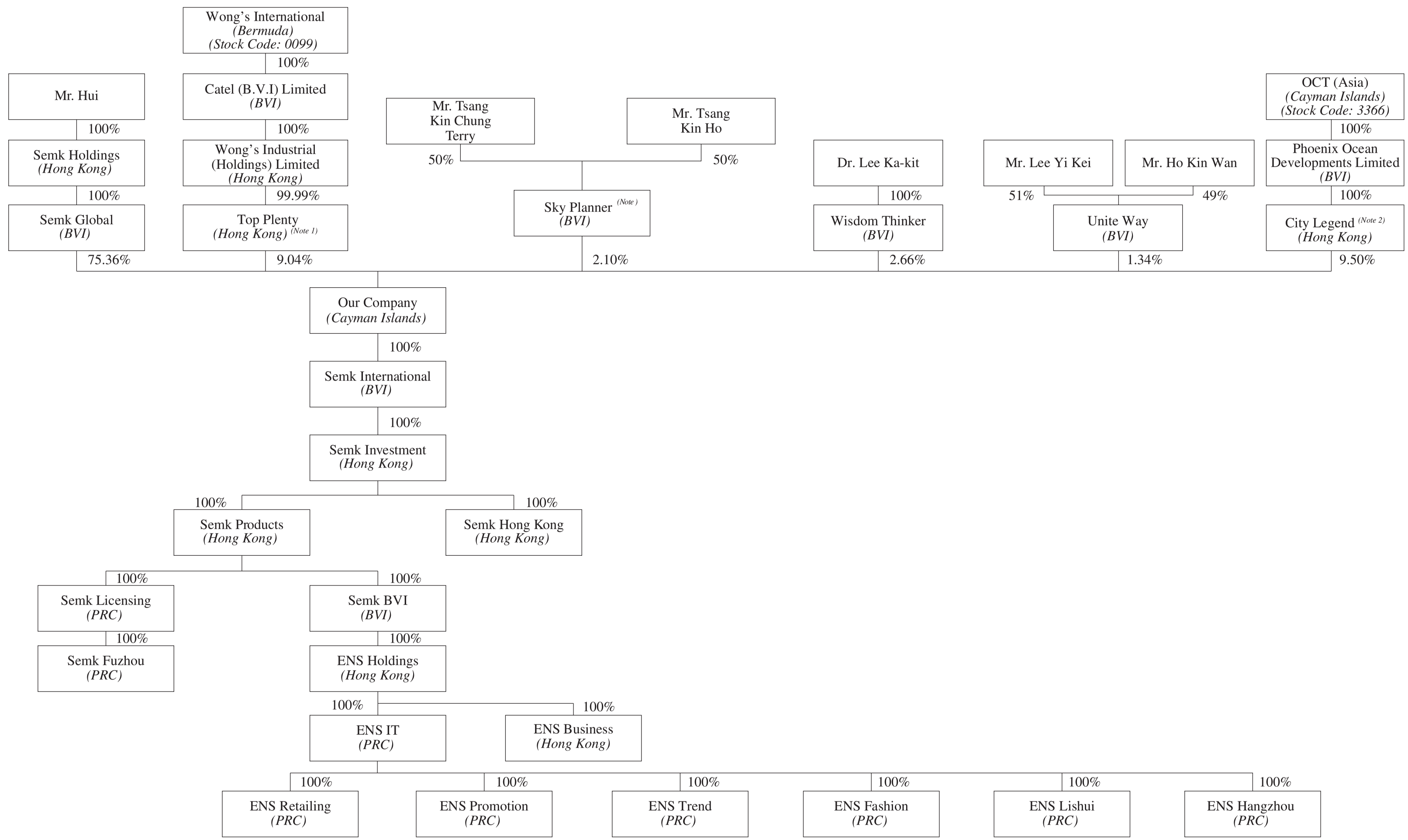
As Sky Planner, Wisdom Thinker, Unite Way and City Legend are not our core connected persons, Shares held by Sky Planner, Wisdom Thinker, Unite Way and City Legend, representing an aggregate of approximately 13.72% of the enlarged share capital of the Company immediately upon Listing, will be counted as part of the public float for the purposes of Rule 8.24 of the Listing Rules. Mr. Wong Yin Shun Vincent ("**Mr. Vincent Wong**") is appointed as one of two directors and chairman of Top Plenty on 22 December 2021. As chairman of Top Plenty, in case of an equality of votes, Mr. Vincent Wong shall have a second or casting vote at board meetings of Top Plenty. Since (i) Top Plenty is required to take instructions from its board of directors in relation to the voting or other disposition of shares of our Company held by Top Plenty and (ii) the board of Top Plenty is controlled by Mr. Vincent Wong, a core connected person of our Company, therefore Top Plenty will not be counted as part of public float for the purposes of Rule 8.24 of the Listing Rules.

Sole Sponsor's confirmation

Under the Interim Guidance on Pre-IPO Investments issued by the Stock Exchange on 13 October 2010 and as updated in March 2017, where the consideration for completion or divestment of the last pre-IPO investment is settled within 28 clear days before the date of first submission of the listing application form, the Stock Exchange will generally delay the first day of trading until 120 clear days after the later of the completion or divestment of the last pre-IPO Investments. The last Pre-IPO Investment was completed on 9 July 2021. On the basis that (i) the Listing is expected to take place on or around 17 January 2022 which will be more than 120 clear days after the completion of the last Pre-IPO Investment, and (ii) the special rights granted to the Pre-IPO Investors will terminate upon the Listing, the Sole Sponsor has confirmed that the Pre-IPO Investment is in compliance with the Interim Guidance on Pre-IPO Investments issued by the Stock Exchange on 13 October 2010 and as updated in March 2017, the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and the Guidance Letter HKEx-GL44-12 issued by the Stock Exchange in October 2012 and as updated in March 2017.

CORPORATE AND GROUP STRUCTURE

The following diagram sets forth our corporate structure immediately after completion of the Reorganisation:

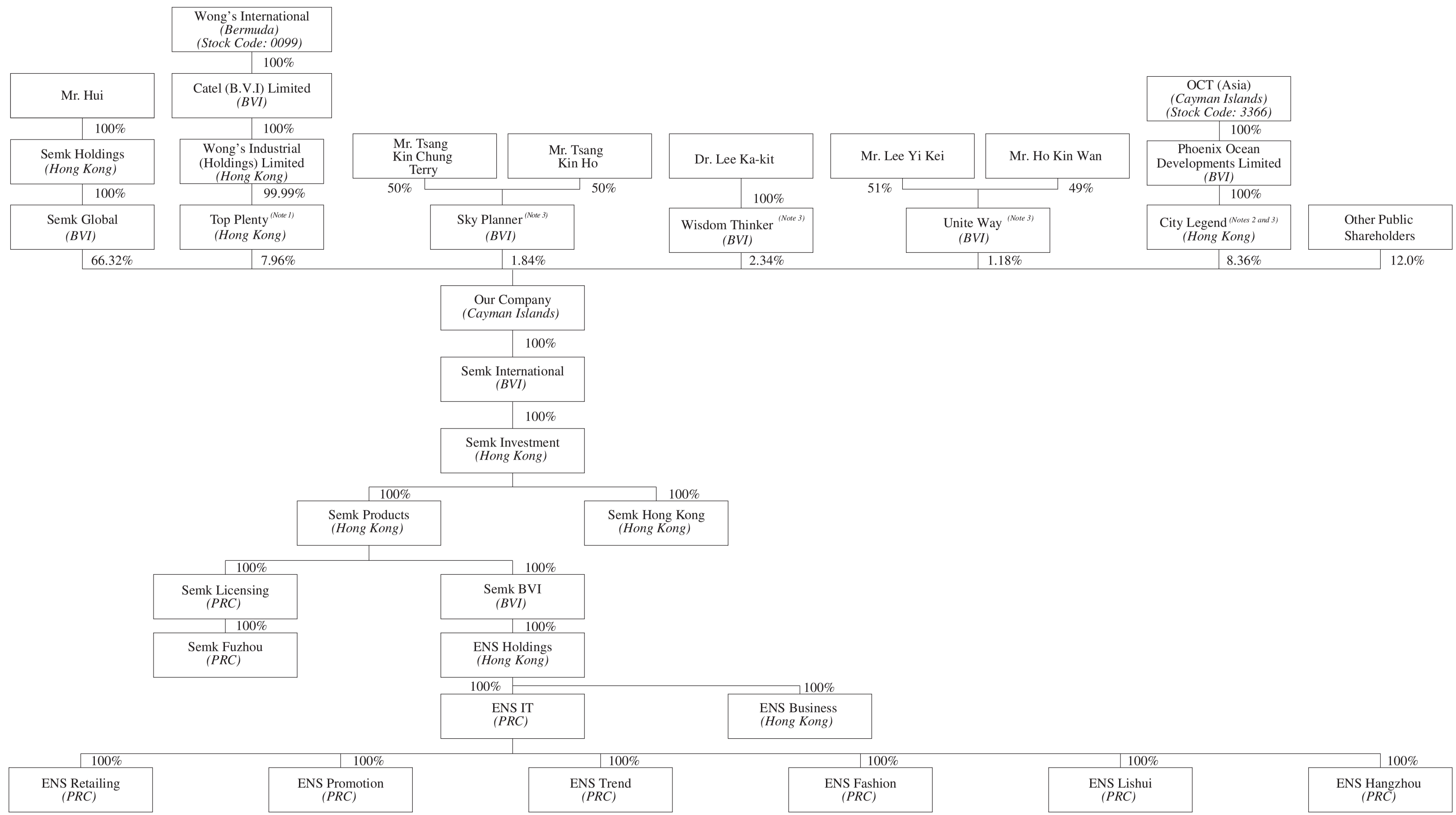


Notes:

(1) Shareholding of Top Plenty is held indirectly by Wong's International, a listed company in Hong Kong.

(2) Shareholding of City Legend is held indirectly by OCT (Asia), a listed company in Hong Kong, which in turn is indirectly owned by OCT Limited, a listed company in Shenzhen.

The following diagram sets forth our corporate structure immediately after completion of the Global Offering, the Share Subdivision and the Capitalisation Issue (excluding the Shares which may be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme):



Notes:

(1) Shareholding of Top Plenty is held indirectly by Wong's International, a listed company in Hong Kong.

(2) Shareholding of City Legend is held indirectly by OCT (Asia), a listed company in Hong Kong, which in turn is indirectly owned by OCT Limited, a listed company in Shenzhen.

(3) As Sky Planner, Wisdom Thinker, Unite Way and City Legend are not our core connected persons, Shares held by them will be counted as part of the public float for the purposes of Rule 8.24 of the Listing Rules.

OVERVIEW

We are the second largest domestic character IP company and ranked fifth among all character IP companies in China, in terms of character licensing revenue in 2020, and with a market share of around 2.4% according to the Frost & Sullivan Report. In terms of sales value in character IP product e-commerce market in China, we had a market share of around 0.6% in 2020. IPs and our brand are at the heart of our business. Our business comprises the creation, design, licensing, brand management and marketing of our self-created, self-owned and iconic B.Duck Family Characters across multi channels. We create and develop style guides, license our B.Duck Family Characters and brands to our licensees, provide them with product design application services and allow them to use our characters on a diverse range of products, including home lifestyle and living, apparel, accessories and infant personal care products etc. We also sell our B.Duck Family Characters-featured products through fast growing online channels, such as our Tmall flagship store, as well as our offline sales channels. Based on (i) there being over 10.5 million subscriptions or follows in respect of our B.Duck Family Characters across various major e-commerce platforms and online social media platforms by our B.Duck Fans located worldwide, including over 3.6 million follows on Weibo, over 3.5 million follows on Tmall, over 1.0 million follows on Facebook and over 0.9 million follows on VIP.com, as at the Latest Practicable Date; (ii) our B.Duck Family Characters having been applied on a diverse range of products and services; and (iii) our previous and ongoing collaborations with various high-profile corporations/brands across different business sectors, such as Sanrio Co., "Game for Peace" (和平精英) and Beijing Imperial Palace Culture Development Co., Ltd.* (北京故宮宮廷文化發展有限公司), we are of the view that the B.Duck Family Characters have gained a high popularity and public attention, such that the public are able to associate any B.Duck Family Characters with our Group.

The origin of our business can be traced back to 2005 when B.Duck, our iconic IP character which we believe to be evergreen, was created by Mr. Hui, our founder, chairman, chief executive officer and executive Director. Since B.Duck gained in popularity in the HK–China Market, we have created 25 other characters, being family members and friends of B.Duck, including but not limited to Buffy, B.Duck Baby, Dong Duck and Bath'N Duck. Our B.Duck Family Characters are designed under the motto of "Be Playful" to appeal to a wide range of consumers across different geographies and demographics. B.Duck has received a number of awards, including the "Asian Property of the Year" for 2016, 2018, 2019 and 2020 and the "China Property of the Year" and the "Licensed Promotion of the Year" in 2021 by Licensing International and the "Hong Kong Premier Brand" in 2016 by The Chinese Manufacturers Association of Hong Kong and Hong Kong Brand Development Council.

We have established a business model covering the entire value chain of the character branding business, including character design and development, character licensing, character-featured merchandising and character promotion and marketing, through which we built a large and growing community of fans.

For our character licensing business, we operate a business model where our in-house artistic design capabilities are fundamental to the creation and design of B.Duck Family Characters that appeal to consumers with a wide range of interests. We design and create a wide spectrum of merchandise and promotional items in diverse consumer industries, including retailers, LBE operators and banks etc. As at 30 June 2021, we had developed over 25,000 SKUs of our B.Duck Family Characters-featured products and our products were sold to around 18 jurisdictions. We have also been focusing on licensing B.Duck Family Characters as design features for different LBE as well as offering interactive contents on various mobile media and social networks. Our extensive licensing network consisted of more than 300 licensees and seven licensing agents during the Track Record Period, with a coverage of a diverse range of consumer sectors and geographical locations including China, Hong Kong, Thailand, South Korea, Malaysia and Mexico etc.

For our e-commerce and other business, we mainly focus on the character IP product e-commerce market, one of the subsegments of the broader IP product e-commerce market, and offer our B.Duck Family Characters-featured products primarily through third-party e-commerce platforms in Hong Kong and the PRC, such as Tmall, JD.com, VIP.com and HKTVmall, etc, to satisfy our customers' needs online and throughout the years. In addition, to a lesser extent, we also sell products in bulk to some corporate customers directly and to the customers through certain consignment stores during the Track Record Period. We engage various domestic OEM suppliers to outsource the production of our products and procure products from the licensees of our merchandise licensing service, which we believe can enable us to focus our resources on enhancing our character branding management, design, product and service development, and sales and marketing management.

The table below sets forth the breakdown of our revenue by business segments during the Track Record Period:

	FY2018		FY2019		FY2020		6M2020		6M2021	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
							(unaudited)			
Character licensing business	63,827	*31.8*	81,630	*33.6*	98,039	*42.0*	31,283	*33.7*	58,972	*47.6*
E-commerce and other business	137,037	*68.2*	161,416	*66.4*	135,476	*58.0*	61,593	*66.3*	64,801	*52.4*
Total	200,864	*100.0*	243,046	*100.0*	233,515	*100.0*	92,876	*100.0*	123,773	*100.0*

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors.

Well established brand name with a vast library of self-created characters

We are the second largest domestic character IP company and ranked fifth among all character IP companies in China, in terms of character licensing revenue in 2020, and with a market share of approximately 2.4% according to the Frost & Sullivan Report. We possess a diversified library of 26 self-created characters, with five main revenue-generating IP characters that we have commercially launched, such as B.Duck, Buffy and B.Duck Baby, each with its own specific and tailor-made features aiming to attract a wide spectrum of customers. We believe we have successfully created a comprehensive character portfolio to meet the needs of our different customers, we have created, developed and nurtured our proprietary catalogue of over 10 B.Duck Family Characters in almost a decade. B.Duck, our iconic character which we believe to be evergreen, as evidenced by having strong brand recognition and a large and growing community of more than 10.5 million subscriptions or follows on various e-commerce platforms and social networking platforms by B.Duck Fans located worldwide and primarily in China, Hong Kong, Thailand, South Korea and Malaysia with, in aggregate, over 740 million views of various types of content in relation to the elements of B.Duck Family Characters as at the Latest Practicable Date. At present, we have core fan bases among a wide range of age groups, with a focus on consumers in the age group from 15 to 34 years old. Our IP character, B.Duck was awarded "Hong Kong Premier Brands" in 2016 by The Chinese Manufacturers Association of Hong Kong and Hong Kong Brand Development Council, "Asian Property of the Year" in 2016, 2018, 2019 and 2020, the "China Property of the Year" and the "Licensed Promotion of the Year" in 2021 by Licensing International, "Most Valuable Cartoon & Animation IP Top 10" for four consecutive years from 2016 to 2019 by the Organising Committee of China IP Industry Conference. Our B.Duck Family Characters have been applied to a wide spectrum of products and content categories in four key areas, namely, (i) merchandise (such as apparel and accessories, home lifestyle and living, personal care, footwear, consumer electronics, toys and baby personal care); (ii) promotional items (such as corporate gifts, bonus point redemption gifts and other advertising and sales promotional items); (iii) LBE in various forms (such as theme parks and attractions, catering and promotional and marketing events); and (iv) content and media (such as children's books, credit cards, emotion stickers, and mobile games). Up to 30 June 2021, we had developed over 25,000 SKUs of our B.Duck Family Characters-featured products and our products were sold in around 18 jurisdictions. Our character library provides us with a variety of high quality character IP rights that forms the foundation of our character branding business and increases potential monetisation opportunities across our business segments.

As we strive to promote our B.Duck Family Characters to reach a broad base of customers through various channels, we attracted a diverse base of business partners, including high profile corporations and brands, to collaborate with us during the Track Record Period. In particular, in FY2020, we partnered with Shenzhen Tencent Computer Systems Company Limited for our B.Duck to feature in "Game for Peace"(和平精英), for certain in-game elements and products. We also entered into collaboration with Beijing Imperial Palace Culture Development Co., Ltd.* (北京故宮宮廷文化發展有限公司) ("**Imperial Palace**") and Liou Brand Management (Shanghai) Limited* (利鷗品牌策劃(上海)有限公司) ("**Liou**") to jointly develop new style guides and IP rights. For instance, in respect of the collaboration with Liou, we jointly created new style guides featuring renowned characters of Sanrio Co., Ltd, such as Hello Kitty and Melody, and our own iconic character, B.Duck. The new style guides were jointly owned by us and our collaboration partner then licensed to other licensees and used by them for the development of new merchandise.

The second largest domestic character IP company and ranked fifth among all character IP companies in China with a proven track record

Our Directors believe that we are a leading character IP company in Hong Kong and China and have been engaging in the character branding business of such characters primarily in China since B.Duck, our iconic character which we believe to be evergreen, was created in 2005 by Mr. Hui, our founder, chairman, chief executive officer and executive Director. With an operating history of over 15 years, our ranking rose from being the 10th largest licensor and the third largest domestic licensor in terms of revenue in the China character IP licensing market in 2017 with a market share of approximately 1.1% to being the second largest domestic licensor and the fifth largest licensor among all character IP companies in China, in terms of character licensing revenue in 2020 with a market share of approximately 2.4% according to the Frost & Sullivan Report. We also experienced notable growth during the Track Record Period. Leveraging our business model which covers the entire value chain of the character branding business, our revenue increased by approximately 16.3% from approximately HK$200.9 million for FY2018 to approximately HK$233.5 million for FY2020 and by approximately 33.3% from approximately HK$92.9 million for 6M2020 to approximately HK$123.8 million for 6M2021. Our adjusted net profit under non-HKFRS financial measures increased by approximately 327.1% from approximately HK$14.0 million for FY2018 to approximately HK$59.8 million for FY2020 and by approximately 80.0% from approximately HK$14.2 million for 6M2020 to approximately HK$25.6

million for 6M2021. We have also received various awards, such as "Best Licensing Team Award Top 10" by Organising Committee of China IP Industry Conference in 2019 and 2020. Our Directors believe that by leveraging the advantage with a proven track record in the character branding industry in the HK–China Market, we are well positioned to capture growing business potential not only in China and Hong Kong but also SEA and other strategic overseas markets.

Robust in-house character and design capabilities

We have built a team of creative professionals, including designers and artists, who play a critical role in the proper functioning of character creation and product development process. Our in-house design team is led by seasoned personnel who have been with our Group for over 15 years and possess thorough understanding of our brand's motto, market trends and fans' preferences. The strength of our product design and development capabilities is integral to our ability to offer a broad product portfolio that appeals to our target customers and business partners. We achieve holistic design by monitoring the entire process of character creation in-house from idea initiation and concepting, market research, and prototyping to brand launch and assurance. We have a repeatable and scalable design and development process to develop a wide diversity of consumer merchandise and content on multi-channels taking account of cultural differences and consumer preference specific to different target markets. Our design team provides the licensees and business partners with advice on how to improve the product development and commercial value of their design works, in part by synthesising and helping to incorporate the behaviour, preferences and interests of B.Duck fans so as to meet consumers' evolving tastes and preferences. Our design team also provides general and/or tailor-made style guides, design and graphic instructions to foster customised consumption experience and to reinforce brand image. Up to 30 June 2021, we had created more than 950 style guides and developed more than 25,000 SKUs for different consumer merchandise under our character licensing business. Our Directors believe that our in-house design capabilities to create and develop our proprietary characters and products have positioned us well to enhance our brand's market presence, which is a key to our sustainable growth in the long run.

Extensive licensing network with a core focus on Asia and sophisticated licensing operation

During the Track Record Period, we had an extensive licensing network of more than 300 licensees and seven licensing agents that covered a diverse range of consumer sectors and gained a widespread reach to consumers across different regions with a focus in Asia, including China, Hong Kong and SEA etc. We have developed a mature character licensing business model where we closely monitor our licensees to make sure our character IP rights are being used in an appropriate manner in order to maintain and protect our brand integrity. Our Directors believe that we bring significant value to the character licensing process with our profound understanding of the character licensing industry in our markets and our proprietary character IP rights. We believe that our active and close interactions with our licensees, licensing agents, licensors and business partners keep us abreast of evolving market trends, which enables us to refine the assessment of our character IP's commercial potential. Having a business model that covers the entire value chain of the character branding business, we believe we are well positioned to provide high quality character resources and advice for cohesive and integrated development of IP character featured products, services and content primarily in the HK–China Market and other strategic markets.

Well established online sales channels

In accordance with the Frost & Sullivan Report, the e-commerce market of IP licensed goods in terms of GMV in China grew from HK$17.1 billion to HK$30.3 billion from 2016 to 2020 at a CAGR of 15.4% and is expected to grow further to HK$65.0 billion in 2025 at a CAGR of 14.9%. To meet this growing demand, we operate our e-commerce and other business through various mainstream e-commerce platforms, which we believe would enhance the visibility of our brand and make our products more accessible to our existing and potential customers. Our revenue for our e-commerce and other business amounted to approximately HK$137.0 million, HK$161.4 million, HK$135.5 million and HK$64.8 million, respectively, during the Track Record Period. As at 30 June 2021, we offered a diverse range of B.Duck Family Characters-featured merchandise through more than 10 mainstream e-commerce platforms. Not only we expanded our e-commerce platform coverage onto other mainstream and popular e-commerce platforms during the Track Record Period, our characters gained greater awareness and popularity on certain e-commerce platforms. We also participated in major campaign events on the online sales channels. For example, we were actively involved in Double-Eleven on Tmall, one of the largest online shopping festivals in China.

Our Directors believe that, by having well established online sales channels, we are able to maintain a strong e-commerce presence which would assist us in gaining greater awareness in both the HK–China Market and the overseas market. It is also a cost-effective means of testing market acceptance for new products, gauging customer feedback, as well as collecting information to guide our expansion plan.

Dedicated and seasoned management team

Our dedicated and seasoned management team is instrumental to our success. We benefit from the leadership of the management team that has led our designers and artists effectively in the creation of numerous non-animated and gaming characters in-house and built our character branding business in the HK–China Market. We believe that they have responded effectively to industry changes and capitalised on emerging market opportunities, including our mobile transition. Our management team has established a proven track record in identifying market opportunities, executing business strategies and guiding our business expansion.

Our executive Directors and senior management possess expertise in different areas with relevant substantial experiences. Mr. Hui, our founder, chairman, chief executive officer and executive Director, has over 20 years of experience in design, marketing, licensing and branding industries. Mr. Kwok Chun Kit, our executive Director and chief operating officer, has over 17 years of experience in sales, marketing and licensing. Mr. Cheung Chin Yiu, our executive Director and general manager, has over 16 years of experience in licensing, marketing, event and promotion, business development, trademark registration and brand assurance. Mr. Tse Tsz Leong, our executive Director and chief financial officer, has over 14 years of experience in auditing, accounting and finance. Mr. Chan Wa Pan, our deputy general manager and deputy head of licensing operations, has over 13 years of experience in the licensing industry. Ms. Tam Nga Chi, our head of design and art director, has over 18 years of experience in product design and development. Ms. Wu Ying, our deputy general manager of e-commerce operations, has over eight years of experience in the e-commerce business industry. Our directors believe that we have created and maintained a client-oriented culture that strives for excellence in services. See "Directors and Senior Management" in this Prospectus for biographical details of our Directors and senior management. We intend to continue to capitalise on the industry expertise, professional management skills and strong execution capabilities of our senior management team to implement our development strategies.

OUR STRATEGIES

With the aim of further developing our business, continuing our growth and capturing the evolving industry dynamics in view of emerging market opportunities, we intend to pursue the following key strategies:

Enhancing our brand image and awareness of our IP characters

We intend to adopt the following strategies to enhance our brand image and awareness of our IP characters as the popularity of our brand and IP characters are at the heart of our business.

Establishing our flagship store in Shanghai

According to the Frost & Sullivan Report, the retail sales value of character IP licensed goods in China and Hong Kong increased from approximately HK$39.3 billion in 2016 to approximately HK$40.4 billion in 2020, representing a CAGR of approximately 0.7%, and is expected to grow at a CAGR of approximately 7.6% from 2021 to approximately HK$60.5 billion in 2025. During the Track Record Period, we witnessed a significant growth in the royalty income generated from our merchandise licensing service from approximately HK$23.9 million for FY2018 to approximately HK$63.4 million for FY2020 and from approximately HK$23.0 million for 6M2020 to approximately HK$39.6 million for 6M2021. Furthermore, we recorded an increase in the revenue generated in China from approximately HK$182.3 million for FY2018 to approximately HK$227.2 million for FY2020 and from approximately HK$89.6 million for 6M2020 to approximately HK$119.2 million for 6M2021. Our Directors believe that there has been an increase in the demand of our B.Duck Family Characters-featured products especially in our largest market, the HK–China Market. In light of the circumstances, our Directors consider that, as part of our business expansion strategy, it is crucial to strengthen our brand image and increase the awareness of our IP characters so that we can enhance our monetisation opportunities. Besides, according to the Frost & Sullivan Report, Shanghai is one of the regional influential licensing hubs in the HK–China Market, holding plenty of IP licensing-related events every year and having various popular brands and IPs established their flagship stores in Shanghai. Furthermore, some of our major licensees in China under our merchandise licensing service are located in Shanghai and its vicinity in the Yangtze River Delta, one of the fastest-growing economies in China.

Having considered the aforementioned geographical advantages of Shanghai and in order to further strengthen our brand awareness and visibility, we intend to establish our first B.Duck Family Characters-featured flagship store in the central business district/prime location in Shanghai with a gross floor area of approximately 1,500 sq.m. by the end of 2022. Even though we have different licensees who specialise in a great variety of products, ranging from apparel and accessories, home lifestyle and living, toys and baby personal care, footwear and consumer electronics etc., we observed that our licensees primarily sell their own products during their ordinary course of business and there is hardly an opportunity for our fans and customers to come into contact with other types of our licensees' merchandise at one time. In light of the circumstances, we plan to use the flagship store as an offline sales channel of our Group and also to attract and gather our licensees to sell their products at our flagship store on a consignment basis. We expect such flagship store would serve as a one-stop platform for us and our licensees to showcase the diversity of products featuring our IP characters and promote our brand identity and visibility. Furthermore, we believe that our flagship store would differentiate from traditional retail stores as we not only congregate our licensees to sell a variety of B.Duck Family Characters-featured products at one single location, but also attract our LBE licensees to infuse other B.Duck Family

Characters-featured elements into our flagship store. In particular, we plan to reserve certain area of the flagship store for them to provide our fans and customers with greater entertainment, dining and leisure experience, such as setting up a Buffy-featured Canton Dim Sum restaurant and indoor entertainment centre etc. In order to attract more B.Duck Fans to visit our flagship store, we intend to cooperate with different licensees to develop exclusive B.Duck Family Character-featured products to be sold in the flagship store, which we believe will enhance the stickiness of our fans and also differentiate our flagship store from alternative sales channels such as online sales channel as our fans would not be able to purchase those exclusive products elsewhere. With the combination of the aforesaid, along with the themed entertainments and other LBE venues in our flagship store, we believe that our flagship store will create a new and unique shopping and visiting experience for our customers and other visitors which in turn will strengthen the awareness of our brand and characters, enhance the growth of our fan base and benefit our business operation. Consequently, with a larger fans base and greater awareness in our brand and characters, we believe that it would in turn benefit our other online and offline sales channels and increase the potential monetisation opportunities.

As Shanghai is one of the regional influential licensing hubs in the HK–China Market, we are confident that by having a flagship store at the prime location of the city, we can attract more fans, nurture their interest in our characters and enhance the stickiness of our fan base which would in turn attract more licensees and further strengthen our brand image.

Besides, according to the Frost & Sullivan Report, there is large population base who have relatively high purchasing power and are willingly to spend on character-featured merchandises in Shanghai. We believe that our licensees would be induced to take advantage from the concentrated population of customers with high purchasing power and at the same time creating a gathering place of B.Duck Fans. Furthermore, our Directors believe that our flagship stores shall provide valuable opportunities for our licensees to showcase their products or services in such a prime location of the HK-China Market which some of our licensees may not have the financial capabilities and resources if they are to establish their presence on their own. Our Directors also believe that, as our proposed B.Duck Family Characters-featured flagship store is the first of its kind, it would create a significant promotional value for our licensees, especially our merchandise and LBE licensees, and the flagship store would serve as an attraction spot in Shanghai for our B.Duck Fans and new visitors that may become B.Duck Fans, which in turn would further enhance our publicity and our brand image.

We expect that we will be responsible for the overall management of our proposed flagship store. In the initial stage, we would be carrying out detailed planning and locating suitable venue for setting up such flagship store. As we believe one of our core strengths is our design capability, we shall be responsible for the overall design and decoration of the store. Upon completion of the said initial stage, we will be identifying and liaising with licensees who are engaged in different aspects of the licensing business to ensure that different kinds of B.Duck Family Characters-featured products or services are to be offered at our store. We expect to collect from our licensees a fixed amount which represents the base rent with reference to the area to be occupied by the licensees, together with a variable amount to be determined in accordance with licensees' turnover, in which it will be a pre-agreed share of their turnover to be negotiated with the licensees on a case-by-case basis, taking into account the types of products to be sold and industry positions of the licensees, with reference to the then local market rate of comparable venues. As confirmed by Frost & Sullivan, sub-leasing and turnover rent arrangement is common in the industry, in particular, between IP licensors and IP licensees who sell IP products. Our staff will operate a central cashier to collect sales proceeds of the flagship store. We will implement a POS system to register the sales proceeds of each of the licensees, and arrange to reconcile with them monthly in order to cross-check the sales proceeds we have collected, and return to them such sales proceeds accrued less the amounts payable by such licensee to us, including the base rent and the shared turnover. Besides, we will, from time to time, monitor the performance and operation of our licensees at the flagship store and promote the in-store experience of our B.Duck Fans and other potential customers. In respect of human resources management, we will on one hand liaise with the licensees to provide the necessary staff members to assist in the operation the flagship store. On the other hand, we plan to recruit management staff in Shanghai to supervise the day-to-day operations of the flagship store. Given that the flagship store will be made up of different licensees operating in their own area within the flagship store, which is to be operated by their own staff, we expect that there would be no substantial human resources requirement for the overall operation of the flagship store. We have been in negotiations with a number of merchandise licensees and LBE licensees in relation to our proposed establishment of the flagship store. As at the Latest Practicable Date, we had entered into a number of non-binding memorandum of understanding (the "**MOUs**") with certain licensees setting out, among other things, the intended arrangements and division of responsibilities regarding the flagship store as stated above. Based on the said MOUs and the current negotiations with our licensees, our Directors believe that we will be able to attract licensees to sell their products and set up LBE venues at our flagship store.

Based on the best estimate of our Directors in light of the current market conditions, we intend to allocate approximately 17.6% of our net proceeds, or approximately HK$50.2 million from the Global Offering for establishing our flagship store, which primarily include (i) the estimated costs of approximately HK$21.7 million for the rental expenses of our flagship store; and (ii) the estimated costs of approximately HK$28.5 million renovation costs of our flagship store, representing the initial set-up costs, which is estimated based on a quotation obtained from a third party contractor and a typical scenario to set up a flagship store in a shopping centre located in downtown Shanghai as advised by Frost & Sullivan. With our flagship store to be primarily for promotion purpose, our Directors estimate that the expected investment payback period shall be approximately three years, which was calculated based on (i) the estimated revenue determined with reference to the historical average revenue per sq.m. of the selected stores of our licensee and the retails store previously owned by us and the estimated fee payable to our licensees; (ii) the estimated staff cost; (iii) the estimated operation expenditure such as utility expenses; (iv) the estimated renovation costs; and (v) the estimated rental expense.

Collaboration with other renowned brands and IPs

To enhance the awareness of our IP characters, we strive to promote our B.Duck Family Characters through a variety of channels. Historically, we had cooperated with different high profile corporations/brands across different business sectors. For instance, we cooperated with China Everbright Bank to issue a B.Duck-featured credit card and collaborated with certain other renowned brands/IP characters such as Chupa Chups, nanoblock and certain other American and Japanese comic characters in respect of various B.Duck-featured products. Our Directors believe that, by collaboration with other renowned brands or IPs, we can ride on their popularity to explore additional monetisation opportunities and attract new licensees and fans from different fields.

In 2020, we ventured into a new form of collaboration with various renowned brands and IPs, such as Imperial Palace and Liou (for the collaboration of certain characters of Sanrio Co., Ltd). Under such form of collaboration, we jointly developed and created new graphics and style guides featuring the brand/IP of our collaboration partners and those new collaboration style guides are jointly owned by both parties. On one hand, we act as a co-licensor to license such jointly developed style guides to other licensees for the development of their own products and in return we receive certain portion of the licence fee as agreed with the collaboration partner. On the other hand, in order to fully capitalise advantage of our business model which covers the entire value chain of the character branding industry and for the purpose of riding on the popularity of our collaboration partner's brand/IP, we create, develop and offer to our fans our own products by obtaining the right to use such new jointly owned graphics and style guides as a licensee. For instance, we developed and sold female apparel featuring both B.Duck and Hello Kitty on certain mainstream e-commerce platforms. Depending on the scale and duration of the collaboration project and the market position of our collaboration partners, we are often required to pay a minimum guarantee for the purpose of entering into the collaboration.

As part of our strategies to strengthen our brand's image and increase the awareness of our IP characters, we intend to continue to look for opportunities to collaborate with other renowned brands and IPs.

Based on our previous successful collaboration projects and our relevant experience and expertise to work with prominent brands and IPs, we believe that the aforementioned functioning collaboration model, that is, the business model adopted for our collaboration with Imperial Palace and Liou, would allow us to attract other renowned brands and IPs to collaborate with us. As part of the collaboration, we generally co-develop style guides with the collaboration partner and are generally required to pay a minimum guarantee, which we believe that the collaboration partner would be benefited greatly from our design capabilities and our established fans base and certain amount of minimum guarantee for protection against any under-performance in sales. Together with the fact that our IP characters can be adopted on a wide range of products, content and service which do not restrict us to any particular type or form of collaboration, our Directors believe that it is feasible and there are plenty of renowned brands and IPs which we could potentially collaborate with by using our proven collaboration model.

As to the selection and evaluation criteria for the potential collaboration partners and opportunities, we will take into account a number of factors, including the popularity and brand image of the relevant brand/IP, the demographic of the brand/IP, the positioning of the relevant brand/IP in the market, whether such brand/IP would be complementary to our business operations and development strategies, the minimum guarantee to be borne by our Group in the potential collaboration and the duration of the potential collaboration etc.

As at the Latest Practicable Date, we have not identified any specific collaboration partners nor do we have any concrete collaboration project. However, we have been actively searching and exploring for potential collaboration partners that meet our criteria and we may initiate preliminary negotiation and discussion with the potential collaboration partners from time to time.

Based on the best estimate of our Directors in light of the current market conditions, and our experience from the previous collaboration projects, we expect to identify at least one to two collaboration partners by 2022 and commence the collaboration in the second half of 2022 or the first half of 2023. We intend that the collaboration with these partners will be for an initial period of two years which shall be launched in four different phases with each phase lasting for around six months (subject to the number of collaboration partner we can identify). During each phase, we expect to co-develop with our collaboration partner around 45 SKUs covering a wide range of products such as apparel, bags and luggage and lifestyle products. The estimated minimum guarantee to be borne by us per phase would be around HK$3.8 million and in total we expect to incur around HK$15.0 million for the proposed collaboration. As such, we intend to allocate approximately 5.2% of our net proceeds, or approximately HK$15.0 million from the Global Offering as our initial payment of minimum guarantee for the future collaboration projects.

Establishing representative offices for overseas markets

As part of our expansion plan, we intend to further expand our footprint in the overseas markets, especially SEA. According to the Frost & Sullivan Report, aside from the China market, SEA is one of the fastest-growing regions in Asia. Nominal GDP of ASEAN is expected to grow at a fast pace. It is estimated that by 2025, the total nominal GDP of ASEAN would increase to US$4.4 trillion, representing a CAGR of 7.3% from 2021 to 2025. The future economic growth of ASEAN would be helped by robust private consumption and government expenditure. ASEAN has gained increased recognition for its economic potential, helped by the visionary move to launch an ASEAN Economic Community (AEC). This ambitious regional economic integration strategy aims to create a single market of more than 600 million people, to enable an easier flow of goods, services, investment, capital and people across the region. In terms of licensed merchandise retail sales in 2020, Thailand and Malaysia were ranked as the fifth and sixth largest licensing market in SEA, respectively. Besides, we had a significant number of subscriptions and follows on our social media platforms from fans and customers in Indonesia and we believe such market has great potential for expansion. We have been exploring business opportunities over the years and we intend to put our continual efforts on geographical expansion in these territories where our Directors believe we can capture the growing demand.

Historically, we worked with our overseas licensing agents to cooperate with the local licensees so as to access the overseas market and thus our overseas market development depend on the number, scale and performance of our overseas licensing agents. As we have an existing network of our licensing agents that have been developing the market in Thailand, Malaysia and Indonesia, and taking into account the number of subscriptions and follows on various social media platforms from these locations are relatively high which infers a possibly greater concentration of our B.Duck Fans, we believe that these locations are the ideal places for our further expansion in the Asia market. For instance, the number of follows and subscriptions of our B.Duck Family Characters from Indonesia, Thailand and Malaysia ranked first, fourth and fifth among all the geographical locations (exclusive of Hong Kong) on Facebook, respectively, as at the Latest Practicable Date. In order to further penetrate the overseas markets, we intend to establish representative offices in Bangkok, Jakarta and Kuala Lumpur by the end of 2022. We plan to recruit around four staff for each of the representative office while at least one of them should have prior experience in character licensing.

The following table sets out the number of staff, their major responsibilities as well as qualifications, years of experience required for the positions we intend to open for recruitment and expected average monthly salary:

Location	Position	No. of staff to be hired	Major responsibilities	Qualifications and years of experience required	Expected average monthly salary for the positions
Indonesia	Manager	1	• Supervise the representative office • Design and execute the licensing campaign	• Degree holder with minimum five years of experience in character licensing	HK$37,500
	Executive	3	• Execution of launches for licensing campaign	• Degree holder	HK$14,000

Location	Position	No. of staff to be hired	Major responsibilities	Qualifications and years of experience required	Expected average monthly salary for the positions
Malaysia	Manager	1	• Supervise the representative office • Design and execute the licensing campaign	• Degree holder with minimum five years of experience in character licensing	HK$40,500
	Executive	3	• Execution of launches for licensing campaign	• Degree holder	HK$12,900
Thailand	Manager	1	• Supervise the representative office • Design and execute the licensing campaign	• Degree holder with minimum five years of experience in character licensing	HK$38,000
	Executive	3	• Execution of launches for licensing campaign	• Degree holder	HK$14,000

Our Directors believe that, with the help of these planned representative offices, we are able to monitor, work and communicate with the local licensing agents more efficiently and those licensing agents shall continue to assist us in attracting more licensees and promoting our brand and IP characters. On the other hand, we expect that the representatives of our representative office shall maintain relationship with our existing licensees and from time to time reach out for potential licensees actively with the assistance from the local licensing agent. We consider that our previous experience in entering into the China market would be relevant to the proposed establishment of the representative offices. Before our Group commenced operation in the China market, we started with establishing a local office in Shenzhen and recruited around three team members who were mainly responsible for liaison and building relationship with licensees in the region. Meanwhile, our headquarters in Hong Kong was responsible for overall management of the office in Shenzhen and formulating directions and strategies for expansion of the China market. Such expansion model was proven to be effective in light of our current market penetration in the China market. In view of the aforesaid, we believe that we have sufficient expertise and experience to set up and operate the representative offices in the targeted overseas markets, which resembles the function of our office in Shenzhen. Our Directors believe that, by establishing representative offices in these target markets, we are able to better understand the preference and taste of the customers in the relevant overseas markets, provide rapid and swift advice to our licensees, further promote our brand and characters and capture the growing demand.

Based on the best estimate of our Directors in light of the current market conditions, we intend to allocate approximately 3.0% of our net proceeds, or approximately HK$8.6 million from the Global Offering as our initial setup cost for establishing representative offices in Bangkok, Jakarta and Kuala Lumpur, which primarily include (i) the estimated costs of approximately HK$5.8 million as the staff costs of our representative offices based on the expected salary of the relevant personnel to be recruited in the target markets; and (ii) the estimated costs of approximately HK$2.9 million for the rental expenses of our representative offices based on the rental quotations of the venues with similar size, around the proposed locations for setting up the proposed representative offices and for a rental period of approximately two years.

Establishing our "Fans Platform"

Historically, our operation and financial performance correlated to the number of fans that we had and we worked with our licensees to connect with the majority of our fans. As at the Latest Practicable Date, based on the data from various e-commerce platforms and online social media platforms, our B.Duck Family Characters had over 10.5 million subscriptions and follows across such platforms by B.Duck Fans located worldwide, including over 3.6 million follows on Weibo, over 3.5 million follows on Tmall, over 1.0 million follows on Facebook and over 0.9 million follows on VIP.com. However, we are only able to interact directly with those who subscribed or followed us on these platforms or those who purchase our merchandise through our offline sales channels.

In view of the circumstances, we plan to engage a third party developer for establishing a brand new and unified fans platform in the form of a WeChat mini programme by the end of 2023, with an aim to gather our B.Duck Fans scattered over various channels and enhance the stickiness of our fans. We expect that the new platform shall allow us to interact with our fans, share the latest development news of our products and share the fun with our fans. With various functions such as a marketplace application and a membership programme planning to be embedded in it, our fans across the globe will be able to earn loyalty points through the purchase of official B.Duck Family Characters-featured merchandise on our online and offline sales channels and those developed and distributed by our licensees. Through this proposed platform, we believe that we will be able to connect and benefit the stakeholders in the industry value chain, including our customers, licensees and our Group. We expect to gather customers who are interested in our brand and IP characters and cultivate their demand and stickiness to our B.Duck Family Characters through tailored marketing campaign, such that they would be more willing to spend money to purchase our B.Duck Family Characters-featured products. With such a loyal and engaged fan base, more licensees would be incentivised to advertise and promote their products, services and contents on our fans platform. It is also expected that our licensees would be benefited from the increased monetisation opportunities through having additional channels to reach our fans and other licensees. Besides, our Group shall be better able to gain insight in the purchasing pattern and understand our customers' taste and preference, hence we are better equipped to identify the market trend and map out the most suitable promotion strategies for our fans and reach out to new customers. We believe this would create a virtuous circle and build connections beyond transaction relationship among our customers, our licensees and our Group. In addition to the above, we expect that such fans platform will have the following functions:

(i) serving as a sales platform in addition to our existing e-commerce platforms, through which we will offer our domestic and overseas fans to purchase merchandise developed on our own and by our licensees;

(ii) allowing customers who have purchased our B.Duck Family Characters-featured products to earn loyalty points and exchange the points on our fans platform. At the same time, we are able to collect the purchase details, such as date and items purchased. We will then analyse the data to understand the purchasing pattern of our fans and customers;

(iii) based on the data such as purchasing pattern we have collected from the relevant customers, we will recommend our other merchandise to such customers;

(iv) serving as a promotion and marketing platform, through which we can from time to time notify our fans of our latest news and promotions; and

(v) allowing customers to authenticate the B.Duck Family Characters-featured products through blockchain solution. It is expected that our customers will be able to scan a QR code on the hologram sticker from our B.Duck Family Characters-featured products purchased from various sales channels of our Group and our licensees and it shall bear a series of unique code to verify the authenticity and such record will be stored at the customers' account with our fans platform. At the same time, the customer would be able to earn points on the platform through this authentication function. Our Company will engage a third party developer which is equipped with blockchain knowledge for the development and maintenance of such services.

Whereas we will engage a third party developer for the development of our fans platform, we will be responsible for its overall design, management and promotion.

We plan to adopt various measures to attract our fans and customers to join our brand new fans platform. We intend to engage a marketing solution provider to assist us in launching our digital marketing campaign in respect of our fans platform on various media platforms in Hong Kong and China. We expect that, by relying on such marketing solution provider's capability in the application of the big data technology in analysing the characteristics of our core fans, such as being in the age group of 15 to 34 years old, tech-savvy and affinity with social media, digital traffic will be driven from those media platforms to our fans platform which we believe would attract them to become a member of our fans platform.

Besides, we intend to launch an extensive marketing campaign on our brand new fans platform targeting at least 40 million fans and customers to register on our fans platform. We intend to attract our fans and customers to register and make purchase on our fans platform with incentive spending by way of giving away our B.Duck Family Characters-featured products in the form of a raffle. It is our plan to implement such incentive spending scheme through different stages. Not only we intend to draw traffic into our fans platform and increase its awareness and publicity in public at the initial implementation stage, we also aim to boost sales growth by stimulating our fans and customers to reach certain level of spending on our B.Duck Family Characters-featured products to enter into the raffle. We expect to give away in total more than 60,000 raffle gifts with a retail price ranging from approximately HK$320.0 to over HK$70,000.0, such as bedding sets, instant camera and tourbillon etc. According to the Frost & Sullivan Report, it is common in the industry to use incentive spending to attract and acquire new fans. In particular, it is suggested that raffle is one of the popular tactics for consumer acquisition and retention. Our Directors consider such strategy would serve as an effective measure to generate additional revenue for our Group.

In any case that there are any changes in the legal, regulatory or licensing requirements in relation to the establishment or operation of our proposed fans platform, we intend to engage or cooperate with qualified entities which have obtained relevant permits and licences so that we comply with the relevant local laws and regulations of the target markets to operate our fans platform. We will continue to ride on our strengths and focus on the design and contents of B.Duck Family Characters art works in accordance with the relevant laws and regulations in the relevant jurisdictions.

Furthermore, we plan to enhance our ability to analyse the popularity and positioning of our brand and develop marketing strategy by subscription to big data database through a third party marketing solution provider. It is our plan that such data to be utilised in three different aspects, namely, competitive landscape understanding, audience understanding and gaining actionable insights. Based on the subscribed data, we intend to (i) gain a more thorough understanding in respect of our brand position and popularity of our products as compared to that of our competitors; (ii) further extend our reach to identify potential audiences and understand their profiles, behaviours and purchase patterns so as to create an audience plan; and (iii) accordingly acquire decision-making insights on marketing strategy and promotion planning.

Based on the best estimate of our Directors in light of the current market conditions, we intend to allocate approximately 25.7% of our net proceeds, or approximately HK$73.5 million from the Global Offering for establishing our "Fans Platform", which primarily includes (i) a sum of approximately HK$38.2 million to be used to fund the estimated costs of approximately HK$45.0 million as incentive spending to attract fans to subscribe and join our fans platform based on the estimated total costs for procuring over 60,000 B.Duck Family Characters-featured products as the proposed raffle gifts, and the remaining balance of approximately HK$6.8 million is expected to be funded by internal resources; (ii) a sum of approximately HK$28.9 million to be used to fund the estimated costs of approximately HK$35.0 million as digital marketing budget for launching the digital marketing campaign to promote our brand new fans platform based on the quotation provided by a third party marketing solution provider, and the remaining balance of approximately HK$6.1 million is expected to be funded by internal resources; (iii) the estimated costs of approximately HK$2.4 million for incorporating blockchain knowhow into the B.Duck Family Characters-featured products for authentication purpose based on the quotation provided by a third party developer; (iv) the estimated costs of approximately HK$2.0 million for subscription of big data database to further enhancing our ability to analyse our brand sentiment and develop marketing strategy to attract target audience based on the quotation provided by a third party marketing solution provider; and (v) the estimated costs of approximately HK$2.0 million for establishing and developing our fans platform in the form of a WeChat mini programme based on the quotation provided by a third party developer for the development of the platform.

Strengthening our new economy online sales channels

We plan to strengthen our online new economy sales channels from various aspects, including enriching our product offerings and enhancing our live streaming sales campaign.

During the Track Record Period, we primarily sell our B.Duck Family Characters-featured apparel, bags and other merchandise through various third-party e-commerce platforms and our revenue from the e-commerce and other business amounted to approximately HK$137.0 million, HK$161.4 million, HK$135.5 million and HK$64.8 million, respectively.

Given that the majority of our fans are primarily in the age group between 15 and 34, with higher purchasing power and more sensitive to artistic styles, we intend to enrich our product offerings to accommodate the needs of different fans by expanding our existing products portfolio and developing new categories of merchandise such as trendy apparel and other types of lifestyle products. By leveraging our prior experience in developing and selling of character-featured merchandise, we believe we are able to offer our B.Duck Fans and customers a wider range of products. Besides, we plan to extend our reach by setting up more e-commerce stores on other third party e-commerce and social media platforms.

Further, our Directors believe that live streaming e-commerce sales on e-commerce platforms shall gain more importance in the near future and will become one of our key marketing and sales strategies. According to the Frost & Sullivan Report, due to the outbreak of COVID-19, IP licensors and IP owner operators rely more on emerging digital marketing channels such as live streaming on e-commerce platforms. In 2020, the total GMV on live streaming platforms achieved RMB142.2 billion. It is expected to further grow at a CAGR of 25% from 2020 to 2025. Furthermore, the live streaming e-commerce market in China, in terms of merchandise sales GMV, grew from HK$2.0 billion in 2016 to HK$1,463.9 billion in 2020 at a CAGR of 420.1%. It is expected to reach HK$6,571.5 billion in 2025 at a CAGR of 32.9% from 2021 to 2025. Moreover, as stated in the Frost & Sullivan Report, KOL engagement helps IP products to improve brand image, and to build trust and awareness among the KOL's followers.

In 2019, we established our first in-house live streaming sales team which was primarily responsible for planning of our live streaming marketing strategies, digital marketing content creation and engaging and collaboration with different KOLs. Since then, we have commenced our live streaming sales campaign on various e-commerce platforms. Based on our average GMV recorded on an e-commerce platform with live streaming session per day and that of without live streaming session, our Directors consider that, such live streaming sales campaign has shown notable positive impact on our sales on e-commerce platforms, given that our campaign is merely at a preliminary stage and without featuring any celebrated KOLs.

We intend to further strengthen our live streaming e-commerce campaign by establishing a KOL training centre in Hangzhou, which is our headquarters of our e-commerce operation. Such planned KOL training centre shall have a gross floor area of approximately 1,000 sq.m. and is expected to be in operation by the end of 2022. Such centre shall have six fully equipped live streaming studios, serve as the base of operation of our live streaming sales team, and provide trainings to the KOLs and other team members that we recruited. Having considered that (i) the rapid development of the live streaming market; (ii) our intention to adopt live streaming sales as one of our key strategies going forward; (iii) our live streaming sales team being at the preliminary stage of establishment and the relevant team members lacking the requisite experience and knowledge for expansion and operation of a scalable live streaming sales team, we intend to engage a third-party MCNs to provide us with professional advice, train our live streaming sales team members, assist us in engaging external leading KOLs for collaboration and assist us in improving our overall strength of our online new economy sales channels. As to the trainings to be provided to our live streaming sales team members, we expect that the trainings shall enable our team members to acquire the necessary knowledge in respect of the strategies on advertising our products, technique on conducting sales through live streaming, content creation and overall planning and management of our live streaming campaign. Furthermore, we expect that such MCNs will provide us with proposals on designing and embellishing our stores on e-commerce platforms, promotion strategies, audience development, content programming and sales of products etc. Besides, we intend to, through the proposed MCNs, engage around 10 external leading KOLs in the market and to ride on their influence on multimedia to attract those KOLs' followers to visit our online sales channels and increase more viewers and user traffic. Apart from the live streaming sessions operated by our live streaming sales team, with the assistance of such MCNs, we plan to host two live streaming sessions per month featuring an external leading KOL to promote at least six SKUs of our Group's products per session.

We also plan to enhance our live streaming sales team by recruiting around 48 team members, including 12 in-house KOLs, 12 make-up artists, 12 lighting technicians and 12 other supporting staff by the end of 2022, and the estimated average salary for each position amounts to approximately HK$36,000, HK$9,600, HK$16,800 and HK$7,200, respectively. We expect to form 12 live streaming sales teams with each team comprising one KOL, one make-up artist, one lighting technician and one supporting staff. With the support of the strengthened live streaming sales team, we would be able to host six live streaming sessions with each session around four hours in the afternoon and six live streaming sessions in the evening.

Based on the best estimate of our Directors in light of the current market conditions, we intend to allocate approximately 17.5% of our net proceeds, or approximately HK$50.0 million from the Global Offering for strengthening our new economy online sales channel, which primarily include (i) the estimated costs of approximately HK$20.0 million to recruit in total around 48 team members including new in-house KOLs and other team members to strengthen our live streaming sales team determined based on the total estimated salary for a period of approximately two years; (ii) a sum of approximately HK$17.2 million to be used to fund the estimated costs of approximately HK$20.0 million for engaging a third-party MCNs to strengthen our live streaming sales campaign and assist us to engage around 10 external leading KOLs for collaboration where such estimated costs is based on the quotation obtained from a third-party MCNs and the remaining balance of approximately HK$2.8 million is expected to be funded by internal resources; and (iii) the estimated costs of approximately HK$12.8 million for establishing a KOL training centre in Hangzhou based on the quotation of a venue with similar size, around the proposed location for setting up the proposed KOL training centre and for a rental period of approximately two years.

Further enhancing our in-house design capability

Our Directors believe that our strong in-house design capability is vital to our success. Accordingly, we aim to continuously enhance our in-house design capability to keep abreast of new trends in the character branding industry globally by incorporating new technologies of various creative initiatives such as art, content, entertainment, media and advertising. According to the Frost & Sullivan Report, creating a popular character image and adapting the image to licensees' products require a strong design capacity.

As at 31 December 2018, 2019 and 2020, and 30 June 2021, our Group's design team consisted of 64, 73, 67 and 73 employees, respectively. During the Track Record Period, we witnessed a significant increase in the demand of our design capability. In particular, the number of contracts which involved design consultation services increased from 37 as at 1 January 2018 to 110 as at 30 June 2021, representing an increase of approximately 197.3%. The number of style guides produced also increased from approximately 410 as at 1 January 2018 to more than 950 as at 30 June 2021, representing an increase of approximately 131.7%. Having considered the aforementioned increase in the number of style guides developed and contracts involving design consultation services, as well as the design capability required for our business expansion and the adoption of our business strategies, including (i) the overall design and decoration of our proposed flagship store; (ii) the creation of graphics and style guides specifically for the proposed collaboration projects and rolling out of new characters; (iii) the diversification of our products offerings for further expansion of footprint into other overseas markets and for our e-commerce and other business; (iv) the establishment and proposed marketing campaign of our proposed fans platform; and (v) the promotion and enhancement of our live streaming sales campaign, our Group intends to recruit in total of around 60 designers by the end of 2024 and they shall include (i) 10 female apparel designers and 10 trendy apparel designers for the purpose of enlarging and diversifying our product portfolio of our e-commerce and other business; (ii) 10 product applications designers, five style guide designers, and five approval team designers for the purpose of enhancing the quality and expanding the volume of our style guides and streamlining the approval process of our character licensing business; (iii) eight interior designers for the purpose of designing our proposed flagship stores in Shanghai and strengthening our design capability for our LBE licensing service; and (iv) 12 multimedia designers for purpose of catering our proposed expansion of brand promotion and marketing efforts.

The following table sets out the number of staff, their major responsibilities as well as qualifications, years of experience required for the positions we intend to open and the amount of proceeds to be allocated to each position:

Position	No. of staff to be hired	Major responsibilities	Qualifications and years of experience required	Amount of proceeds to be allocated to the positions
Female apparel designers	10	• Focus on graphic design for the artworks used on the apparel and other products • Assist in designing female apparel collection	• Degree/higher diploma holder in fashion graphic design with minimum eight years of work experience in fashion graphic design for senior role • Higher Diploma or above in fashion graphic design with minimum one year of work experience in fashion graphic design for junior role	Approximately HK$5.8 million
Trendy apparel designers	10	• Focus on graphic design for the artworks used on the apparel and other products • Assist in designing trendy apparel collection	• Degree/higher diploma holder in fashion graphic design with minimum eight years of work experience in fashion graphic design for senior role • Higher Diploma or above in fashion graphic design with minimum one year of work experience in fashion graphic design for junior role	Approximately HK$5.8 million

Position	No. of staff to be hired	Major responsibilities	Qualifications and years of experience required	Amount of proceeds to be allocated to the positions
Product applications designers	10	• Responsible for assisting customers to apply our style guides onto their products • Work closely with licensing department and provide product designs to licensees	• Degree/higher diploma in graphic design with minimum eight years of work experience in graphic design for senior role • Degree/higher diploma holder in graphic design with minimum two years of work experience in product design for junior role	Approximately HK$5.8 million
Style guide designers	5	• Responsible for the creation of style guides • Work closely with licensing department and provide designs for licensees	• Degree/higher diploma holder in graphic design with minimum eight years of work experience in style guide creation for senior role • Degree/higher diploma holder in graphic design with minimum one year of work experience in style guide creation for junior role	Approximately HK$2.5 million
Approval team designers	5	• Review graphics and designs created by the product applications and style guide teams and conducting approval at different stages of our licensing operation	• Certificate/Diploma/ Degree in Graphic Design with minimum six years of work experience in graphic design for senior role • Degree/Higher Diploma holder in graphic design with minimum one year of work experience in graphic design for junior role	Approximately HK$2.5 million

Position	No. of staff to be hired	Major responsibilities	Qualifications and years of experience required	Amount of proceeds to be allocated to the positions
Interior designers	8	• Produce design drawing, 3D rendering and technical drawing • Assist in mounting of exhibition, display of exhibits or event	• Bachelor degree in visual communication, exhibition and multi-media design with minimum five years of work experience in 3D design for senior role • Bachelor degree in visual communication, exhibition and multi-media design with minimum one year of work experience in 3D design for junior role	Approximately HK$4.5 million
Multimedia designers	12	• Build and evolve the brand identity that can translate creatively across different visual touchpoints • Develop creative graphic and multimedia solutions which meet the brand goals	• Diploma or above in graphic or multimedia design or related disciplines with minimum eight years of experience in graphic design or multimedia design for senior role • Diploma or above in design or any relevant discipline with minimum two years of experience in graphic design for junior role	Approximately HK$6.8 million

Based on the best estimate of our Directors in light of the current market conditions, we intend to allocate approximately 11.8% of our net proceeds, or approximately HK$33.7 million from the Global Offering for enhancing our in-house design capability, which primarily include the estimated cost for recruiting additional designers.

Broadening our character portfolio and rolling out new characters

Our Directors believe that new character development is important to our long-term growth, which includes diversifying our character portfolio, enriching and re-energising our existing characters, attracting new licensees and fans, and expanding our licensing categories and products offerings.

According to the Frost & Sullivan Report, the character licensing market in Asia is regarded as a market being developed with high potential. The China market was the second largest character licensing market in Asia after Japan, accounting for around 25% of licensed merchandise retail sales in 2020. The character licensed goods retail sales in China and Hong Kong are expected to increase to approximately HK$59.8 billion and HK$0.7 billion by 2025 with a CAGR of approximately 7.6% and 4.3% from 2021 to 2025, respectively. During the Track Record Period, we have experienced substantial growth in which our revenue increased by approximately 16.3% from approximately HK$200.9 million for FY2018 to approximately HK$233.5 million for FY2020. Our revenue increased by approximately 33.3% from approximately HK$92.9 million for 6M2020 to HK$123.8 million for 6M2021. Going forward, our Directors believe that we will be able to continue to capture the potential business opportunities associated with the expected growth in the character branding market in China and Hong Kong in view of our proven track record in the character branding business by continuing to strengthen our character portfolio and enlarge our fan base.

Going forward, our Directors are confident that we will be able to roll out new pipeline of characters to broaden our character portfolio. We believe our business model which covers the entire value chain of the character branding industry, including character design and development, character licensing, character-featured merchandising and character promotion and marketing would be advantageous to our characters development. On one hand, leveraging our robust in-house design capabilities and with our proposed recruitment of about 60 additional designers, we believe we have the requisite ability to design and develop new characters that may attract consumers and fans. Besides, subsequent to the craft and design of the new characters, we have various channels to promote the awareness and popularity of such new characters among the public. In particular, we are able to ride on the popularity and the established fans base of our other characters such as featuring such new characters in the B.Duck Family Characters-featured products. Furthermore, we believe that we have experience in rolling out new characters such as Buffy, B.Duck Baby and Bath'N Duck which have received increasing recognition shortly after their respective commercial launch into market. For instance, shortly after the commercial launch of Buffy and B. Duck Baby in 2017, our revenue attributable to Buffy and B.Duck Baby under our character licensing business increased from approximately HK$6.1 million and HK$3.4 million for FY2018 to approximately HK$7.8 million and HK$13.5 million for FY2020, respectively. Furthermore, we have been in cooperation with Guangzhou Lichen Trading Co., Ltd.* (廣州麗琛商貿有限公司) and Guangzhou Beautifirm Cosmetic Ltd.* (廣州麗信化妝品有限公司), which are engaged in the sales of infant personal care products under the brand name "CROCO baby", for the use of B.Duck Baby on their personal care and sanitary products which are sold through an extensive online and offline sales network. We also entered into cooperation with an international fashion brand in 2020 for the use of Dong Duck on various apparel goods. In view of the above, we are confident that we will be able to roll out new characters to extend our reach to different consumers in the future.

In determining the timeline for the launching of new characters, we will take into account, among others, (i) the trend and development of the character IP licensing market and character licensed goods market; (ii) the development of our existing characters; (iii) the development of our various sales channels including the establishment of our flagship store in Shanghai and KOL training centre in Hangzhou; and (iv) the status of adoption of our other core business strategies such as the setting up of our fans platform and enhancement of our design capability. Furthermore, prior to the full commercial launch of new characters, we plan to offer our licensees a lower minimum guarantee for obtaining the licence to use the new characters so as to encourage them to obtain such licence and promote their awareness and publicity. Based on the aforementioned factors and the preliminary market response, our Directors consider that we will be in a better position to adjust and determine our timeline and strategies for launching new characters. Currently, we have a pipeline of new characters, such as Buffy's Friends (namely Cream, Mocha, Moses, DaDa and Butter) which are expected to be commercially launched in 2023. Other than that, our Directors currently do not have an immediate plan for the launching of new characters. Despite the aforesaid and in view of the amount of excess royalties derived and the increase in the number of licensing contracts in respect of our existing characters during the Track Record Period, our Directors consider that there are still plenty of rooms for further development of our existing characters and we intend to take necessary measures to broaden our character portfolio as and when appropriate.

Our Directors believe that the success of our characters in attracting fans and consumers is critically linked to the marketing and brand promotion strategy. Supported by effective marketing and promotions, our Directors believe this ensures that our characters will increasingly be recognised and achieve a sustained level of fan awareness. As we continue to strengthen our character portfolio, we initiate active marketing campaigns to promote and nurture our characters, build our brand and enlarge our fan base. We intend to focus on strengthening our character branding and promotion networks which we believe will be beneficial to our future launch of new characters.

OUR CHARACTERS

Leveraging our in-house artistic design capabilities, we have developed and nurtured a proprietary portfolio of approximately 26 self-created characters, with five main revenue-generating IP characters that we have commercially launched, as at 30 June 2021. We aim to continuously expand our IP character portfolio. Our B.Duck Family Characters are created under the motto of "Be Playful" and designed to appeal to a wide range of consumers across different demographics. Our B.Duck Family Characters are targeted at consumers aged between 15 and 34 years old who are brand conscious and possess qualities such as trendiness, high purchasing power, tech-savviness and affinity with social media primarily located in Asia.

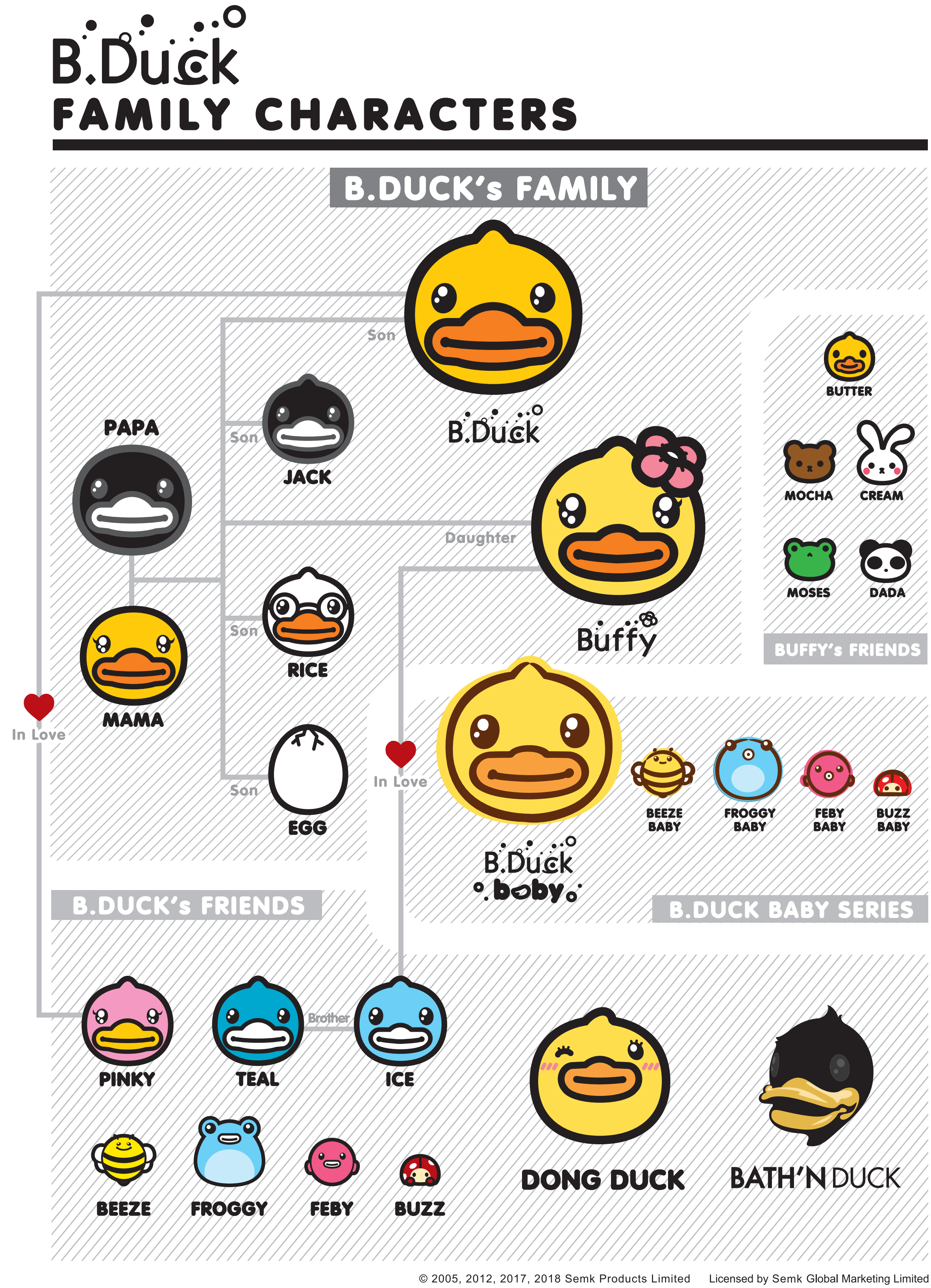
B.Duck, our iconic character which we believe to be evergreen, is a renowned character deeply rooted in Hong Kong and is widely recognised in the HK–China Market. As B.Duck was not originally created for illustrated books, animations, games, etc., it is not subject to strict restrictions and is used on a wide array of merchandise and content in diverse consumer sectors. This makes B.Duck accessible to everyone and allows the character to be adapted to any type of design, which in turn makes it possible to keep B.Duck popular and allows multiple variations to be produced to suit different products, target markets and sales seasons in the HK–China Market.

We dedicate our efforts to expanding our character portfolio by rolling out new IP characters. Historically, we have successfully commercially launched B.Duck Baby and Buffy. In anticipation of the fast-growing Generation Z consumer group that has become increasingly influential, in the first quarter of 2019, we have commercially launched Dong Duck which was created for a popular Chinese actress who is widely recognised among many Gen Zers in China, as a celebrity to incorporate her key features and gestures in Dong Duck that represents stylishness, trendiness and youthfulness primarily targeting at female Gen Zers in China. We also rebranded and relaunched an existing character, namely Bath'N Duck, to seek to attract Gen Zers in 2019. Our pipeline of other new characters such as Buffy's Friends (namely Butter, Mocha, Cream, Moses and DaDa) is expected to be commercially launched in the future. See "Our Strategies — Broadening our character portfolio and rolling out new characters" in this section above for more details. Our Group considers various factors, including our design capacity, identities of interested licensees, feedback from our licensees, market demand, promotion cost and our internal resources, before we commercially launch any new characters. We created the character B.Duck Baby back in 2010 as our Group considered the image of B.Duck Baby could widen the range of licensed products for merchandise and promotion licensing business.

In addition, during the Track Record Period, we obtained five Licensed Characters from renowned global brand owners and licensors for use in selected consumer product categories mainly in the HK–China Market.

The following table sets forth a breakdown of our revenue by IP characters under our character licensing business during the Track Record Period:

	FY2018		**FY2019**		**FY2020**		**6M2021**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Our self-created IP characters								
B.Duck	53,892	*84.4*	61,555	*75.4*	75,035	*76.5*	43,423	*73.6*
Buffy	6,082	*9.5*	8,625	*10.6*	7,831	*8.0*	3,251	*5.5*
B.Duck Baby	3,351	*5.3*	7,816	*9.6*	13,451	*13.7*	10,469	*17.7*
Bath'N Duck	–	–	2,319	*2.8*	725	*0.7*	387	*0.7*
Dong Duck	–	–	379	*0.5*	136	*0.1*	1,155	*2.0*
Licensed Characters	502	*0.8*	936	*1.1*	861	*1.0*	287	*0.5*
	63,827	*100.0*	81,630	*100.0*	98,039	*100.0*	58,972	*100.0*


B.Duck
FAMILY CHARACTERS
B.DUCK's FAMILY
Son
PAPA
Son
JACK
B.Duck
Daughter
Son
RICE
MAMA
In Love
Son
EGG
Buffy
BUTTER
MOCHA
CREAM
MOSES
DADA
BUFFY's FRIENDS
In Love
BEEZE BABY
FROGGY BABY
FEBY BABY
BUZZ BABY
B.Duck baby
B.DUCK BABY SERIES
B.DUCK's FRIENDS
Brother
PINKY
TEAL
ICE
BEEZE
FROGGY
FEBY
BUZZ
DONG DUCK
BATH'N DUCK
© 2005, 2012, 2017, 2018 Semk Products Limited
Licensed by Semk Global Marketing Limited

The following table sets out the main characters that we created ourselves or licensed from independent licensors:

(A) Our Self-created Characters

(a) Main self-created characters that we commercially launched up to 30 June 2021

	Name of characters	Major features and target consumers	Year of creation	Year of commercial launch	Major applications for use
(1)	B.Duck 	• Playful, cheerful, kind-hearted • Twinkling eyes, puffy lips and a big tummy • Unisex aged 6–34	2005	2005	• Apparel and accessories • Home lifestyle and living • Toys and baby personal care • Footwear • Packaged food and beverage • Theme park and catering • Mobile games • Credit cards
(2)	Buffy 	• Fashionable, curious, enthusiastic • Pale yellow in colour, always wearing different hairclips • Young female aged 15–34	2016	2017	• Apparel and accessories • Home lifestyle and living • Toys and baby personal care • Footwear • Packaged food and beverage • Catering
(3)	B.Duck Baby 	• Active, cheerful, sweet-tempered • Pale yellow in colour, with bigger head and smaller body • Infants, toddlers and kids aged 0–6	2010	2017	• Toys and baby personal care • Apparel and accessories • Footwear
(4)	Dong Duck 	• Energetic, optimistic, imaginative • Pale yellow in colour, with puffy lips and long care eyelashes • Young female aged 15–34	2017	2019	• Apparel and accessories • Home lifestyle and living • Toys and baby personal care • Footwear • Packaged food and beverage

	Name of characters	Major features and target consumers	Year of creation	Year of commercial launch	Major applications for use
(5)	Bath'N Duck 	• Cool, fashionable, self-confident • Black in colour, tall, body proportion of a young male teenager, always wearing black shorts • Unisex aged 15–34	2012 and rebranded in 2019	Relaunched in 2019	• Apparel and accessories • Footwear

(b) Future characters pipeline for commercial launch

	Name of characters	Major features and target consumers	Year of creation	Expected year of commercial launch	Major applications to be used
(1)	Buffy's Friends (namely Butter, Mocha, Cream, Moses and DaDa) 	• Cute, lively, funny • Short and fluffy • Young female aged 15–34	2016	2023	• Apparel and accessories • Home lifestyle and living • Toys and baby personal care • Footwear • Packaged food and beverage

(B) Licensed Characters for the Track Record Period

	Name of characters	Licensor	Term of licensing contract	Major product categories for merchandise licensing service	Territory(ies)
(1)	Chupa Chups	Chupa Chups S.A.U	1 February 2016 to 28 February 2024	• Apparel and accessories • Home lifestyle and living • Toys and baby personal care • Footwear • Consumer electronics	• PRC • Hong Kong • Taiwan
(2)	Mentos	Chupa Chups S.A.U	28 May 2018 to 28 February 2024	• Apparel and accessories • Footwear	• PRC • Hong Kong • Taiwan
(3)	nanoblock	Kawada Co., Ltd	1 September 2017 to 31 August 2020	• Apparel and accessories	• PRC • Hong Kong

	Name of characters	Licensor	Term of licensing contract	Major product categories for merchandise licensing service	Territory(ies)
(4)	Award-winning 3D animated television series characters in China and Hong Kong	A member of a listed Hong Kong conglomerate principally engaging in family education and entertainment	1 January 2017 to 31 December 2018	• Apparel and accessories • Home lifestyle and living • Toys and baby personal care • Footwear • Packaged food and beverage	• PRC • Hong Kong
(5)	Animated television series characters in China, the US and South Korea	A Chinese animation and toy company listed on the Shenzhen Stock Exchange	20 November 2017 to 19 November 2020	• Apparel and accessories • Home lifestyle and living • Toys and baby personal care • Footwear • Packaged food and beverage	• Hong Kong

B.Duck is our iconic and evergreen character, making our largest revenue contribution under our character licensing business during the Track Record Period. For the Track Record Period, revenue attributable to B.Duck under our character licensing business amounted to approximately HK$53.9 million, HK$61.6 million, HK$75.0 million and HK$43.4 million, respectively, representing approximately 84.4%, 75.4%, 76.5% and 73.6% of our revenue of our character licensing business for the same period. Our Directors consider that, relying on B.Duck during the Track Record Period is mainly because the character licensing industry in the HK–China Market is dominated by global character brands with high brand awareness and building new characters is expensive and time consuming. Leveraging the popularity of B.Duck and its established massive fan base, we strive to expand our character portfolio by commercially rolling out new characters so as to reduce our reliance on any single character, demographic segment, product category, geographical location and sales channel.

Our Directors believe that going forward, our business is not unduly reliant on B.Duck for the following reasons:

(i) *Companies dominated by a single character are not uncommon in the character licensing industry globally:* According to the Frost & Sullivan Report, while many licensors have several characters in their portfolio, companies dominated by a single character have proven that they can succeed, rising to the top list of licensed characters by generating licensing revenue. For instance, a company dominated by a single character, ranked second in character licensing in the HK–China Market in terms of revenue in 2020.

(ii) *Our proven track record of commercially introducing new characters:* Leveraging the established brand image of B.Duck in the HK–China Market in the last decade, we have successfully commercially launched Buffy and B.Duck Baby in 2017 and relaunched Bath'N Duck in 2019. Our revenue attributable to Buffy under character licensing business increased from approximately HK$6.1 million for FY2018 to approximately HK$7.8 million for FY2020, representing an increase of approximately 28.8%, while our revenue attributable to B.Duck Baby under character licensing business rose significantly from approximately HK$3.4 million for FY2018 to approximately HK$13.5 million for FY2020, representing an increase of approximately 301.4%. For instance, since FY2018, we have been in cooperation with Guangzhou Lichen Trading Co., Ltd.* (廣州麗琛商貿有限公司) and Guangzhou Beautifirm Cosmetic Ltd.* (廣州麗信化妝品有限公司), which are engaged in the sales of infant personal care products under the brand name "CROCO baby", for the use of B.Duck Baby on their personal care and sanitary products which are sold through an extensive online and offline sales network. These demonstrate that our new characters are receiving increasing recognition in a short period of time after their commercial launch into the market.

(iii) *Adopting multi-character strategy:* Following the success of B.Duck and with our proven track record of introducing new characters, we rolled out Dong Duck in December 2018 and rebranded and relaunched Bath'N Duck in 2019 to seek to attract Gen Zers. Our pipeline of other new characters (i.e. Buffy's friends, namely Butter, Mocha, Cream, Moses and DaDa), is expected to be commercially launched in the future. Going forward, we will take steps to diversify our character portfolio by organising launch events and opening pop-up stores for our new characters; making use of digital media marketing; engaging KOLs, celebrities or ambassadors; and hosting or sponsoring offline promotional activities. See "Our Strategies — Broadening our character portfolio and rolling out new characters" in this section above for further details.

(iv) *Continuously developing B.Duck Family Characters through diversification:* We see opportunities to nurture B.Duck Family Characters by collaborating with other well-known IPs targeting the emerging LBE and content and media business. We intend to build upon the popularity and fan base of B.Duck Family Characters to collaborate with other popular brands and IPs across different industries and develop social content with an aim to further promote our characters and diversify our customer group. For instance, we partnered with Shenzhen Tencent Computer Systems Company Limited for our B.Duck to feature in the mobile game "Game for Peace" (和平精英). We also strive to incorporate B.Duck Family Characters on a diverse range of products, content and service, such as incorporating the social and interactive features of B.Duck Family Characters on various digital media and entertainment formats and developing different various categories of consumer merchandise in order to cater from the needs and demand of different demographics and thus maintaining their visibility and awareness in the marketplace. In addition, we actively penetrate targeted markets by introducing localised B.Duck Family Characters-featured products, services and marketing campaigns that appeal to the cultural tastes and differentiated demands of each territory, such as Buffy-featured Canton Dim Sum restaurants in the PRC with Buffy wearing Chinese opera costumes as decoration, B.Duck and Buffy figurines holding love lock placed under N Seoul Tower, etc. Through these strategies, we believe that B.Duck Family Characters will continuously gain popularity across different sales channels, product categories and geographical locations going forward.

In view of the foregoing, our Directors believe that the level of our reliance on B.Duck is decreasing and will continue to decrease in the future.

Nevertheless, our B.Duck Family Characters contributed substantially all our Group's revenue under our character licensing business during the Track Record Period. Our revenue under our character licensing business attributable to our B.Duck Family Characters amounted to approximately HK$63.3 million, HK$80.7 million, HK$97.2 million and HK$58.7 million, representing approximately 99.2%, 98.9%, 99.0% and 99.5% of our total revenue under our character licensing business during the Track Record Period, respectively. Our Directors consider that, relying on our B.Duck Family Characters during the Track Record Period is primarily due to our strategy to leverage on the success and popularity of B.Duck and thus our Group historically rolled out and commercially launched more B.Duck Family Characters. As well as our effort to reduce to the extent of relying on any single character, we have in place a series of measures to mitigate the risk exposure of relying on our B.Duck Family Characters going forward and they are as follows:

(i) *Developing new characters to enrich our character portfolio:* Our Directors consider that the broadening of our character portfolio and rolling out of new characters may mitigate our risk exposure. Historically, we leveraged the established brand image of B.Duck in the HK-China Market and commercially launched Buffy and B.Duck Baby in 2017. Subsequent to that, in order to diversify our customer and fans base, we relaunched Bath'N Duck in 2019, which we believe carries distinctive features as compared to our other B.Duck Family Characters. We intend to create new style guides and apply such style guides on developing trendy and fashion apparel and accessories to supplement our existing products offerings. Furthermore, our Directors believe that our pipeline of new characters, namely Buffy's Friends, are to be launched in the future and can be easily differentiated from our other revenue-generating B.Duck Family Characters. Our Directors believe that they can be applied in other kinds of products and attract different customer groups going forward. Our Directors will also, subject to the latest market development and trend, commercially roll out other new characters as and when appropriate.

(ii) *Diversification of our product application:* Our Directors are of the view that, apart from the broadening our character portfolio, the enrichment of our product offerings would be one of our key measures to mitigate the risk exposure. We believe that, as our B.Duck Family Characters can be easily adapted and applied on a wide range of products, contents and services and our design team are well equipped to create highly compatible style guides, we are able to cater the needs and demand of different demographics and maintaining our IP characters' visibility and awareness in the market. For instance, up to 30 June 2021, we have created more than 950 style guides and approved more than 25,000 SKUs in respect of our B.Duck Family Characters-featured products. Through our continuous effort on the development and diversification of style guides and product applications, our Directors are confident that we are able to response to the shift in market trend and the change in customers' taste and preference from time to time.

(iii) *Expanding into new markets:* As part of our core-business strategies, our Directors intend to explore new markets to further expand our business and reduce the risk exposure. Apart from engaging licensing agents to assist us in identifying business opportunities locally, we intend to start with setting up representative offices in Thailand, Malaysia and Indonesia, which shall be responsible for, among other things, promoting our brand and IP characters and assisting in fostering the development of our character licensing business. Our Directors consider that, through promotion and cultivation of customer taste and preference in other markets, we would be able to attract more fans and customers in different markets and territories and thus reduce our risk exposure.

OUR IP RIGHTS

IP rights are fundamental to our business. Our most important IP rights relate to the trademarks goodwill and copyright of B.Duck Family Characters. To us, registration of trademarks is one of the most important methods of protecting our interest in B.Duck Family Characters. This is due to the nature of our business model which involves the licensing of our IP characters and sale of a wide range of IP character-featured consumer goods. Accordingly, we protect our IP rights largely by relying on our registered trademarks as well as restrictions through licensing agreements, employment agreements and confidentiality provisions.

We have extensively registered or applied for registration of B.Duck Family Characters as trademarks for most of the common product categories applied in a wide array of consumer sectors in all our major markets. As at the Latest Practicable Date, we registered over 80 trademarks in Hong Kong and over 1,300 trademarks in the PRC. The registered trademarks in Hong Kong and the PRC cover our main revenue-generating characters, including B.Duck, Buffy and B.Duck Baby. We have also registered trademarks of one of our main revenue-generating characters, B.Duck, in 14 other jurisdictions or regions.

As at the Latest Practicable Date, we renewed 23 trademarks which were to be expired in 2021 and 2022 in the PRC. We have approximately one trademark that will expire in 2022 and the revenue attributable to such trademark under our character licensing business amounted to approximately nil, HK$2.1 million, HK$2.6 million and HK$3.8 million, respectively for the Track Record Period, representing approximately nil, 2.6%, 2.6% and 6.4% of our total revenue under the character licensing business for the same periods. Since registered trademarks generally have an initial validity period of ten years, our Group has implemented policy to monitor the status of the trademarks and renew the registered trademarks as and when appropriate. After discussing with our Hong Kong and overseas IP legal advisers, we understand that (i) the earliest time our Group can file the application for renewing such trademark registrations ranges between three to 12 months before expiry of such registered trademarks; and (ii) as long as our Group properly files the applications for renewal within the stipulated periods, there are no legal impediments from renewing our Group's registered trademarks in Hong Kong and overseas. For our trademarks in the PRC, as advised by our PRC IP Legal Advisers, our Group can file the applications for renewing relevant trademark registrations within 12 months before the expiration and the extension period of six months (if such extension period is granted), as long as our Group properly files the applications for renewal within the stipulated periods, there are no legal impediments from renewing our registered trademarks in the PRC. See "Statutory and General Information — B. Further Information About Our Business — 9. Intellectual property rights" in Appendix IV to this Prospectus for more details of our material trademarks which are registered.

In addition to trademarks and restrictions through licensing agreements and employment agreements and confidentiality provisions, we also pursue other IP protection strategies to avoid bad faith or copycat registrations of any of our character IP rights by third parties and thus, we maintain proofs of characters creation and typically register the copyright on any new characters where such registration is possible, mainly in the PRC. As at the Latest Practicable Date, we registered over 200 copyrights in the PRC.

In Hong Kong, copyright is not registrable. B.Duck Family Characters are created by Mr. Hui and designers of our Group and qualify as original artistic works. By virtue of our Group's contracts of employment with Mr. Hui and the designers and statutory provisions of the Copyright Ordinance, our Group is the copyright owner of all the relevant artistic works. As advised by our Hong Kong IP Legal Advisers, (i) such copyright subsists for a period of life of author (the designers) plus 50 years without the requirement for registration and protects against unauthorised copying of the whole or a substantial part of B.Duck Family Characters and against dealing with their infringements; and (ii) by virtue of international conventions which apply to Hong Kong by reason of the PRC being a member, our Group's copyright is recognised and enforceable in nearly 180 member countries around the world.

Our Group does not have any registered design in Hong Kong as our Group takes the view that the B.Duck Family Characters are not features of shape, configuration, pattern or ornament registrable under the Registered Designs Ordinance. As such, the relevant artistic copyright works should enjoy the full term of copyright protection, i.e. life of the authors (designers) plus 50 years and not the registered design protection which is only up to a maximum of 25 years. As advised by our Hong Kong IP Legal Advisers, even if the B.Duck Family Characters are registrable designs but are not registered, our Group still enjoys automatic copyright protection for 15 years, and the B.Duck Family Characters will continue to be protected in parallel and thereafter by the registered trade marks (and possibly as well-known marks as well) and goodwill under the law of passing off.

Our Group has registered over 80 trademarks in Hong Kong which cover the names and mostly faces of the most popular B.Duck Family Characters. As advised by our Hong Kong IP Legal Advisers, (i) with those trademarks registrations, our Group has the exclusive statutory rights to use the registered marks in respect of the specified goods or services in the classes where the marks are registered; and (ii) use of an identical or confusingly similar mark by a third party in respect of the same or similar goods or services will constitute trademark infringement.

Since 2005, our Group, through itself and its licensees, has designed, developed, sold and promoted in and outside Hong Kong a large range of goods and services under or by reference to the B.Duck Family Characters with B.Duck being most widely recognised and popular. As advised by our Hong Kong IP Legal Advisers, by reason of substantial use and promotion, our Group has acquired a vast and substantial reputation and goodwill in Hong Kong, the PRC and many countries around the world in respect of its registered trademarks and B.Duck Family Characters, particularly B.Duck. It is stipulated in our Group's licensing agreements with our licensees that goodwill generated from use of B.Duck or B.Duck Family Characters (as the case may be) shall inure to the benefit of our Group. Such goodwill is a prerequisite for relying upon the common law of passing off to stop third parties from using confusingly similar characters, marks or product get-ups.

Our Group has also expressly stipulated in our standard employment contracts and business contracts with our licensees that non-public information about our operation, such as B.Duck Family Characters and their designs, shall remain confidential.

Based on the above, our Hong Kong IP Legal Advisers are of the view that there is adequate protection of the IP of B.Duck in Hong Kong.

Our major IP protection measures

We instruct external legal advisers and/or independent IP service agents for registration of trademark and copyright (where such registration is possible) of our characters and their names. Applications for registration are typically only filed before the launch of the character in order not to disclose any new character prematurely to public domain. In the PRC, we generally file trademark applications for each class before rolling out any new character to protect our IP rights in the PRC. In Hong Kong and other jurisdictions, we generally register the relevant classes which we plan to use in respect of the new character.

We appoint external legal advisers in the PRC to monitor trademark and copyright filings in the PRC by third parties which will potentially infringe our IP rights. Our external legal advisers in the PRC will report to us of any potential cases of trademark infringement and counterfeit goods and we generally instruct our external legal advisers to file opposition against any infringing applications and related enforcement work. We have proactively opposed applications in relation to characters with features we consider similar to each of B.Duck Family Characters and the word "B.Duck" or the names of B.Duck Family Characters in Hong Kong and the PRC.

We also engage external legal advisers and/or independent IP service agents in HK, the PRC and other jurisdictions to keep track of the validity period of each of our registered trademarks from time to time. Our external legal advisers and/or independent IP service agents will notify us of any registered trademarks which are to be expired and open for renewal application. We have proactively and punctually applied for renewal of our registered trademarks which are material to our Group's business.

We have a set of policies in place to prevent potential infringement of third party IP rights by us or by our licensees. Before granting our licensee the right to use the trademarks of our IP characters, we will confirm whether (i) our Group has the ownership in respect of the trademarks stated on the relevant agreements; (ii) the relevant form in respect of verifying the trademark status has been completed; and (iii) the licensing director has approved the grant of such licence. In case we discover that the relevant trademarks have not been registered by us, we shall follow up with the registration status of the relevant trademarks.

We take protection of our character IPs with respect to counterfeit goods very seriously in order to protect the important B.Duck Family Characters as well as the licensees and business partners that utilise them. In respect of our online and offline enforcement, we work with our external legal advisers and/or independent IP service agents in HK and the PRC to conduct regular checks to ensure if there is any infringement of our IP rights on any websites and offline retail shops or by any wholesalers. Our external legal advisers and/or independent IP service agents would gather the relevant evidence in respect of the potential infringement and they shall provide the same to us and consult us in respect of any further action to be taken. We have been active in filing lawsuits against infringers and obtaining compensation for the infringement of our character IPs. During the Track Record Period, our PRC IP Legal Advisers initiated approximately 124, 618, 587 and 192 evidence-related proceedings including preservation of evidence, and lawsuits against infringers, respectively. The success rate of the lawsuits filed by our PRC IP Legal Advisers against infringers for the corresponding periods were approximately (inclusive of lawsuits ruled in our favour or reached a settlement) 96.3%, 97.3%, 99.4% and 99.1%, respectively. The related costs incurred were approximately HK$0.7 million, HK$2.3 million, HK$1.5 million and HK$0.2 million, respectively, and we have obtained compensation of approximately HK$1.0 million, HK$3.3 million, HK$1.4 million and nil, respectively, in respect of the lawsuits and settlements prior to and after the initiation of the lawsuits. Furthermore, during the Track Record Period, our other legal advisers initiated approximately 56, 1,334, 1,024 and 176 evidence-related proceedings including preservation of evidence, and lawsuits against infringers, respectively. The success rate of the lawsuits (inclusive of lawsuits ruled in our favour or reached a settlement) filed by our other legal advisers against infringers for FY2019, FY2020 and 6M2021 were approximately 87.0%, 89.3% and 100%, respectively, whereas the corresponding success rate of the lawsuits was not applicable for FY2018 (as all proceedings initiated in FY2018 were preservation of evidence in nature and no lawsuits had been filed). The related costs incurred were approximately HK$14,000, HK$0.6 million, HK$0.2 million and HK$48,000, respectively, and we have obtained compensation of approximately HK$2,000, HK$0.4 million, HK$0.3 million and HK$59,000, respectively, in respect of the lawsuits and settlements prior to and after the initiation of the lawsuits. Subsequent to the Track Record Period, our Group initiated 529 evidence-related proceedings including preservation of evidence, and lawsuits against infringers as at the Latest Practicable Date. For online enforcement, we have engaged external legal advisers and/or independent IP services agents to monitor major online marketplace, and have designated our licensing manager or independent IP service agents to monitor other regional online marketplace and actively seek to remove all the counterfeit goods identified.

Furthermore, we develop digital content and interactive media services and control access to our proprietary content and related elements, such as design, graphics, storytelling of children's book, mobile games, emotion stickers, etc., by entering into non-disclosure agreements or licensing agreements with IP protection clauses with licensees as well as character creation and design agreements with our employees, business partners and contractors with an aim to obtain the rights to the result of work made by our employees in employment contracts. We also grant limited rights of our own character IPs to business partners and contractors, such as mobile game developers, social network operators and media websites, etc., for the purpose of developing content featuring our B.Duck Family Characters.

We also have the right to run audit programmes to confirm that our licensees have fulfilled their obligations, including sales of approved products, timely sales reporting and payments, according to the terms of the licensing agreements, and to verify the sales amounts of the licensed products. Royalty reports are obtained from our licensees on a regular basis. We compare the production/sales quantity set out in such reports against the number of hologram stickers we sold to our licensees at minimal cost as an additional protection measure. If there is any material discrepancy, we will request the licensees to provide an audited turnover certificate. Site visits could also be arranged to sample check if the finished licensed products are attached with our hologram stickers.

In addition to the above IP protection measures, we have also taken actions against trademarks in the process of registration or successfully registered by third parties (the "**Similar Trademarks**") which are similar to our registered trademarks or other IPs. During the Track Record Period and up to the Latest Practicable Date, we filed approximately 1,153 opposition applications to Similar Trademarks which were in the process of registration by third parties, as at the Latest Practicable Date, among which (i) 277 of the opposition applications had rulings from the PRC Trademark Office, of which 117 opposition applications had been ruled in our Group's favour by either rejecting registrations of the related Similar Trademarks at all or rejecting their registrations on certain designated commodities, accounting for approximately 42.2% of opposition applications being ruled on; and (ii) other 876 opposition applications of the Similar Trademarks were still under review of the PRC Trademark Office in accordance with the timeframe stipulated under the PRC Trademark Law and the success rate is uncertain at this stage.

In addition, during the Track Record Period and up to the Latest Practicable Date according to our Group's confirmation, we filed approximately 199 applications to invalidate the Similar Trademarks, among which (i) as at the Latest Practicable Date, one invalidation application was terminated as such Similar Trademark was revoked in the course of review, 151 invalidation applications had rulings from the PRC Trademark Review and Adjudication Board and 126 invalidation applications had been ruled in our Group's favour by declaring the related Similar Trademarks to be invalid at all or on certain designated commodities, collectively accounting for approximately 83.4% of invalidation application being ruled on. According to the relevant rulings, to the best knowledge and belief of our Directors making their reasonable due diligence, the owners of the related Similar Trademarks may bring lawsuits against those rulings in the People's Court within 30 days from receipt of the aforesaid rulings. As at the Latest Practicable Date, we received five court notices regarding challenges against the aforesaid rulings and those five challenges were dismissed at the first hearing and the relevant owner has filed an appeal. Amongst the said five appeals, four had been decided in favour of our Group, whereas the decision for the remaining one appeal was still pending as at the Latest Practicable Date; and (ii) other 47 invalidation applications were still under review of the PRC Trademark Office in accordance with the timeframe stipulated under the PRC Trademark Law and the success rate is uncertain at this stage.

Based on the facts, information, confirmations and representations provided by our Directors and the representations and review results given by IP services agents and/or our PRC IP Legal Advisers, our Group owns various copyrights and has successfully registered trademarks in various product categories with regard to our B.Duck Family Characters. Through our Group's long-term promotion and extensive usage thereof, our B.Duck Family Characters have gained such high popularity and public attention that the public would easily associate any B.Duck Family Characters with our Group. Given that our B.Duck Family Characters could be applied to various areas, registration of Similar Trademarks would likely confer unfair advantage upon such applicants, misleading the public and harming our Group's legal interests in violation of the provisions and spirit of relevant PRC trademark laws. As such, our PRC IP Legal Advisers confirmed that the possibility of successful opposition or successful invalidation of Similar Trademarks is relatively high.

According to the PRC Trademark Law, a ruling in respect of invalidation and revocation applications shall be made within 9 months, which period may be further prolonged 6 months upon approval by the administration for industry and commerce department of the State Council. For a trademark applied for registration, the Trademark Office shall, within nine months upon receipt of application, complete the examination in the form of either preliminary acceptance or rejection. In the case of preliminary acceptance, the Trademark Office shall make a three-month public announcement thereof. Depending on whether any opposition application is filed against it, a trademark thus announced may either go through opposition application review or be approved for registration upon the expiration of the announcement period. The specific periods stipulated in the Implementing Regulations of the PRC Trademark Law shall not be included in the trademark examination and hearing periods.

To the best of knowledge of our Directors, during the Track Record Period and up to the Latest Practicable Date, no claim, dispute or other pending legal proceedings which caused or likely to cause any material adverse impact on our business, financial conditions and results of operations, was brought against us in relation to any infringement of trademarks or other IP rights. However, unauthorised use of our IP by third parties and the expenses incurred in protecting our IP rights from such unauthorised use may adversely affect our business and results of operation. See "Risk Factors — Risks relating to the Business of Our Group — Infringement or misappropriation claims by any third parties against us or unauthorised use of our character IP rights may adversely affect our business and reputation" in this Prospectus for further information.

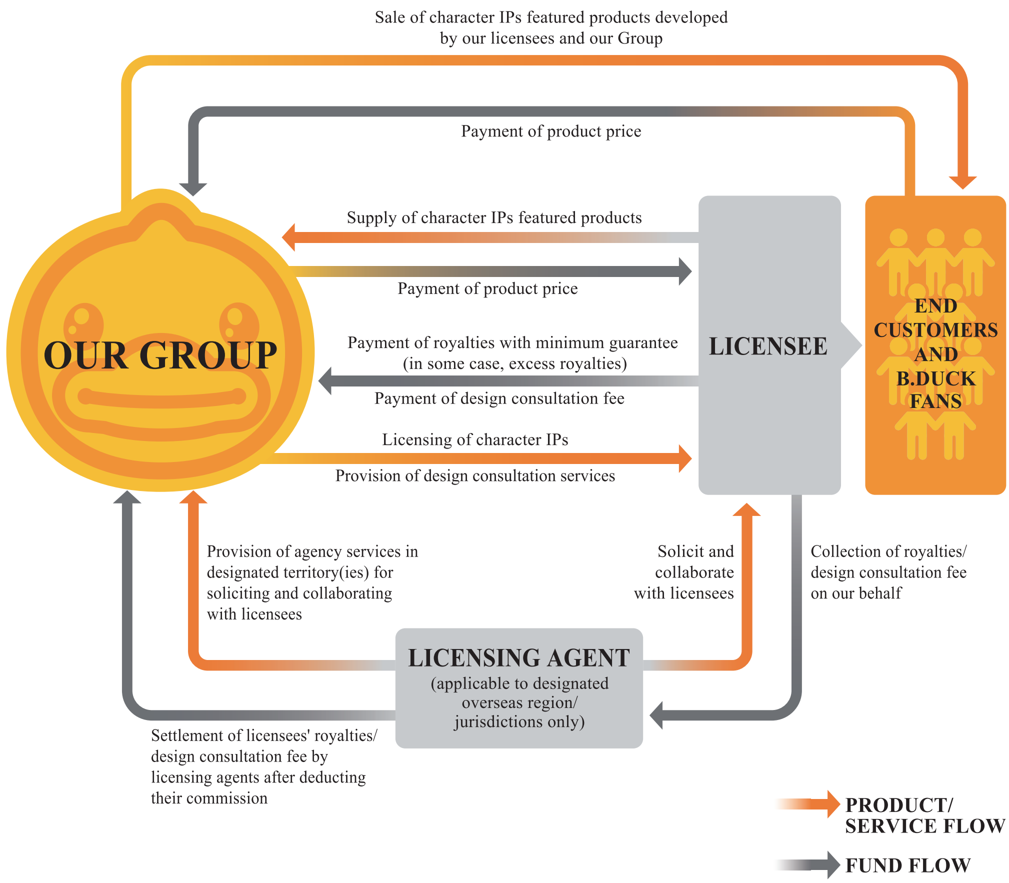
OUR BUSINESS MODEL

We are principally engaged in (i) the character licensing business: the creation, design, licensing, brand management and marketing of our self-created B.Duck Family Characters across multi-channels; and (ii) the e-commerce and other business: the design, development, procurement and retail sales of our B.Duck Family Characters-featured products on various online and offline channels.

The following table set forth a breakdown of our revenue by business segments during the Track Record Period:

	FY2018		**FY2019**		**FY2020**		**6M2021**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Character licensing business	63,827	*31.8*	81,630	*33.6*	98,039	*42.0*	58,972	*47.6*
E-commerce and other business	137,037	*68.2*	161,416	*66.4*	135,476	*58.0*	64,801	*52.4*
Total	200,864	*100.0*	243,046	*100.0*	233,515	*100.0*	123,773	*100.0*

The following diagram illustrates our business model during the Track Record Period and as at the Latest Practicable Date:



OUR CHARACTER LICENSING BUSINESS

Our character licensing business can be broadly divided into five main service types, namely (i) merchandise licensing; (ii) LBE licensing; (iii) content and media licensing; (iv) promotion licensing; and (v) design consultation. Our services across different service types are interrelated and complementary to each other, each of which on a single, multi-service or integrated basis.

The following table sets forth a breakdown of our revenue by type of income and service type in the character licensing business during the Track Record Period:

	FY2018		FY2019		FY2020		6M2021	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Royalties from:								
Merchandise licensing	23,949	*37.5*	41,439	*50.7*	63,393	*64.7*	39,632	*67.2*
LBE licensing	7,546	*11.8*	10,358	*12.7*	10,353	*10.6*	5,031	*8.5*
Content and media licensing	5,156	*8.1*	7,179	*8.8*	5,605	*5.7*	1,096	*1.9*
Promotion licensing	7,029	*11.0*	4,381	*5.4*	3,194	*3.2*	1,298	*2.2*
	43,680	*68.4*	63,357	*77.6*	82,545	*84.2*	47,057	*79.8*
Service fees from:								
Design consultation	20,147	*31.6*	18,273	*22.4*	15,494	*15.8*	11,915	*20.2*
	63,827	*100.0*	81,630	*100.0*	98,039	*100.0*	58,972	*100.0*

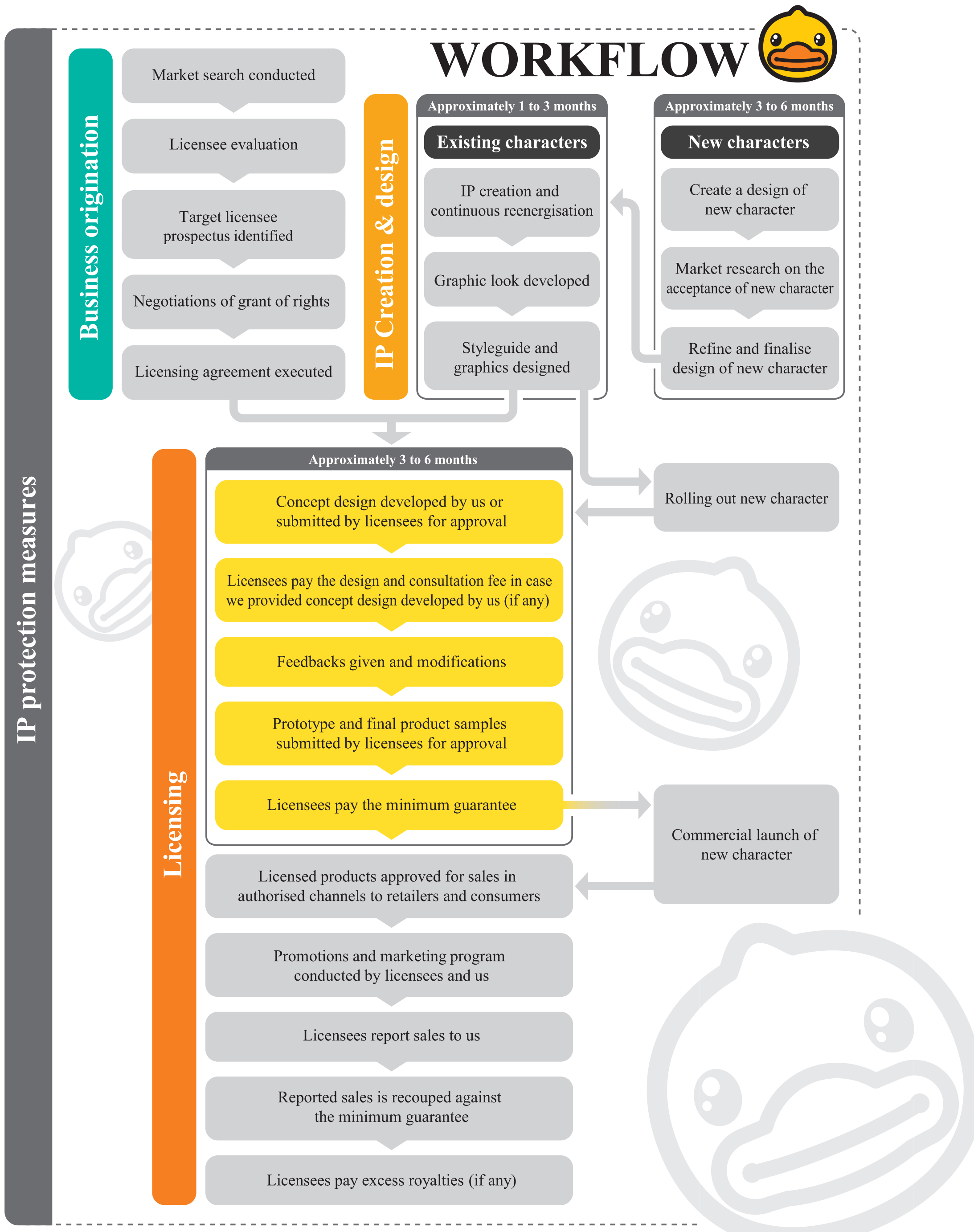
For the Track Record Period, royalties consisted of minimum guarantees and excess royalties, of which (i) minimum guarantees amounted to approximately HK$39.0 million, HK$46.8 million, HK$48.9 million and HK$28.4 million, representing approximately 61.0%, 57.3%, 49.9% and 48.2% of our revenue under our character licensing business for the same periods, respectively; and (ii) excess royalties amounted to approximately HK$4.7 million, HK$16.5 million, HK$33.6 million and HK$18.6 million, representing approximately 7.4%, 20.3%, 34.3% and 31.6% of our revenue under the character licensing business for the same periods, respectively.

The following table sets forth the breakdown of the total and outstanding contract sum by business service types for our character licensing business for the period indicated:

	FY2018	FY2019	FY2020	6M2021	Since 30 June 2021 and up to the Latest Practicable Date
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Outstanding aggregate contract sum at the beginning of the year/period					
Merchandise licensing	42,409	40,285	51,631	60,143	74,747
LBE licensing	109	8,895	8,795	13,028	10,582
Content and media licensing	1,072	447	38	2,639	2,860
Promotion licensing	2,286	1,873	1,188	420	1,749
Design consultation	4,433	3,418	2,624	1,547	3,666
Add: Net contract sum of contracts awarded/terminated during the years/period					
Merchandise licensing	20,574	40,520	35,524	37,037	13,172
LBE licensing	16,606	8,539	12,470	1,177	4,329
Content and media licensing	4,574	6,735	8,189	1,115	–
Promotion licensing	5,960	3,086	978	2,349	178
Design consultation	19,133	17,545	14,418	14,034	5,962
Less: Revenue recognised during the year/period					
Merchandise licensing	(20,299)	(27,623)	(32,340)	(22,597)	(26,192)
LBE licensing	(7,317)	(8,340)	(9,151)	(3,834)	(3,168)
Content and media licensing	(5,154)	(7,134)	(5,588)	(951)	(984)
Promotion licensing	(6,207)	(3,716)	(1,852)	(1,037)	(737)
Design consultation	(20,147)	(18,273)	(15,494)	(11,915)	(8,549)
Foreign currency translation differences *(Note)*	**(3,114)**	**(1,981)**	**6,347**	**449**	**409**
Outstanding aggregate contract sum at the end of the year/period					
Merchandise licensing	40,285	51,631	60,143	74,747	62,316
LBE licensing	8,895	8,795	13,028	10,582	11,567
Content and media licensing	447	38	2,639	2,860	1,869
Promotion licensing	1,873	1,188	420	1,749	1,193
Design consultation	3,418	2,624	1,547	3,666	1,081
Total	54,918	64,276	77,777	93,604	78,025

Note: As certain licensing contracts are denominated in RMB, it refers to the foreign currency translation difference arouse from the exchange rate movement of RMB and HK$ during the relevant year/period.

The following diagram illustrates the operation flow for our character licensing business during the Track Record Period and as at the Latest Practicable Date:



Design consultation

Design consultation services are our core business activities supported by a team of creative professionals, including designers and artists, in cooperation with our licensing, sales and marketing personnel. We have an established character and product design process to assist in the development of a wide diversity of merchandise and content on multi-channels specific to various consumer sectors primarily in China, Hong Kong, SEA and other strategic markets. Once we licensed our character IP rights to licensees, we jointly develop products and content with licensees by generating tailor-made style guides specific to their requirements. The term of the design consultation service contracts is determined on a project basis and may generally last not more than 12 months.

As part of our brand management strategy, we developed a graphic look for B.Duck Family Characters. The graphic look and guidelines are then given to our licensees in the form of style guide and other materials, including the graphical assets that are used to develop the licensed products. The style guide consists of guidelines for allowed logos, likeness, signatures, design variations, and packaging guidelines. Besides, the style guide specifically outlines the use of colours and correct use of graphical assets. Our licensees are required to develop products that follow the given instructions. In some cases, additional style guides are created to provide seasonal or other design variety to the brand. Continuous development of style guides is crucial for our character IP rights to stay relevant and fresh in the eyes of retailers and consumers, which means that the licensed products need to evolve over time. This can be done, for example, by creating seasonal product lines and by changing the colourways and design elements. Once the style guide and assets are finalised, they can be shared with our licensees and the product development process can be started.

Creativity and artistic design capabilities are instrumental to our success. We provide basic and/or tailor-made style guides, design and graphic instructions to foster customised consumption experience for our licensees while reinforcing our brand image. Moreover, we localise our characters to take into account cultural differences and consumer preference specific to our target markets. Up to 30 June 2021, we had provided licensees with more than 950 style guides to ensure the proper application of our character IP rights to their products, content and services to assure our brand image.

After formulating a design concept, conducting market research and creating a prototype by licensees, our brand assurance personnel are involved throughout their product development process to ensure the quality of our design and products. The product prototype must be approved by us before production, and each unit of the final products must bear a hologram sticker which is sold by us at minimal cost before launching into market.

Merchandise Licensing

The main source of our revenue and earnings is merchandise licensing. We license our own and Licensed Characters' IP rights for use on third-party products in a diverse range of consumer product categories, the most significant of which are broadly divided into six major categories as follows:

Major product category	Examples of consumer merchandise	Number of SKUs approved by us during the Track Record Period
Home lifestyle and living	• bedding, home decor and furnishings, bathroom products, tableware and kitchenware, etc.	more than 1,200

Mug

Tableware

Soap bottle

Major product category	Examples of consumer merchandise	Number of SKUs approved by us during the Track Record Period
Apparel and accessories	• womenswear, menswear, kids, infants and children's clothing, bags, other accessories, etc.	more than 12,000

T-shirt

Sweater

Backpack

Major product category	Examples of consumer merchandise	Number of SKUs approved by us during the Track Record Period
Toys and baby personal care	• plush toys, figurines, baby toys, water guns, bikes, milk bottles, baby lotion, etc.	more than 650

Plush toy	Balance bike	Baby toy
		

Major product category	Examples of consumer merchandise	Number of SKUs approved by us during the Track Record Period
Footwear	• slippers, sport shoes, sandals, sneakers, rain boots, etc.	more than 3,700

Slippers	Children's sneakers	Sport shoes
		

Major product category	Examples of consumer merchandise	Number of SKUs approved by us during the Track Record Period
Consumer electronics	• portable chargers, hand warmers, mini-fans, toasters, LED lamps, etc.	more than 200

Portable charger	Lamp	Speaker
		

Major product category	Examples of consumer merchandise	Number of SKUs approved by us during the Track Record Period
Others	• stationery, watch, packaged food and beverage, car accessories, travelling items, etc.	more than 600

Luggage

Pencil bag

Watch

The merchandise licensing contracts typically last one year to as long as seven years. The table below sets forth a breakdown of our revenue by major product category generated from the merchandise licensing service during the Track Record Period:

	FY2018		FY2019		FY2020		6M2021	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Home lifestyle and living	7,611	*31.8*	14,496	*35.0*	22,231	*35.1*	9,694	*24.5*
Apparel and accessories	6,197	*25.9*	13,111	*31.6*	16,082	*25.4*	14,323	*36.1*
Toys and baby personal care	5,191	*21.7*	6,521	*15.7*	12,188	*19.2*	10,479	*26.4*
Footwear	1,955	*8.2*	3,705	*8.9*	8,674	*13.7*	1,593	*4.0*
Consumer electronics	1,020	*4.2*	1,781	*4.3*	2,989	*4.7*	2,173	*5.5*
Others *(note)*	1,975	*8.2*	1,825	*4.5*	1,229	*1.9*	1,370	*3.5*
	23,949	*100.0*	41,439	*100.0*	63,393	*100.0*	39,632	*100.0*

Note: Others included stationery, watch, packaged food and beverage, car accessories, travelling items, etc.

We have the full rights to control our licensees over the usage of our character IPs and to further approve or reject any designs or other elements such as packaging, labelling and advertising materials to be launched to markets. Our approval process is usually conducted in stages, which typically include the concept stage (drawings and models, etc.), the pre-manufacturing stage (prototypes) and the manufacturing stage (final production samples). Subsequent to the product approval process, our licensees would distribute the finished products through different online and/or offline retail sales channels, including but not limited to, their physical stores and third parties e-commerce platforms such as Tmall, and some of them would distribute the same by way of wholesale.

During the Track Record Period, our B.Duck Family Characters have been used by, including but not limited to, a leading branded bedding products company in Hong Kong, a multi-national manufacturer of antiseptic mouthwash products, an international manufacturer of insulated food and beverage containers, a Korean manufacturer and distributor of cosmetic products, a Thailand-based company selling baby and juvenile products and a Hong Kong-based food manufacturer renowned for its moon cakes.

LBE Licensing

LBE is an emerging consumer product category. We focus on developing LBE in the form of (i) theme parks and attractions; (ii) catering; and (iii) promotional and marketing events, which involve granting the permission to use our character IP rights as design features for various entertainment, dining and leisure destinations.

(i) *Theme parks and attractions*. As at the Latest Practicable Date, there was one amusement park with B.Duck-themed park areas which was opened in 2020 in Nanjing in collaboration with Nanjing Overseas Chinese Town. Nanjing Overseas Chinese Town principally engages in tourism and property development and is operating theme parks in the PRC that hosted over 42 million visitors in 2020.

Nanjing Happy Valley

Moreover, we have signed a contract with Nanjing Dream Union Entertainment Co. Ltd.* (南京寶橙文化娛樂發展有限公司), a PRC indoor playground developer, for the cooperation in opening 15 indoor entertainment centres, which comprise B.Duck-themed children's playground, retail store and restaurant, in the PRC. As at the Latest Practicable Date, there are six indoor entertainment centres which have commenced operation in Changsha, Sanya and Nanjing, etc. There are more centres which are planned to commence operation in Qingdao, Chengdu and Hangzhou.

Indoor Entertainment Centre

(ii) *Catering*. In addition to theme parks and attractions, we are also developing our catering capabilities which involve the opening of restaurants, concept stores and cafes, hotels and resorts, other recreational and catering facilities, etc. As at 30 June 2021, there were 20 Buffy-featured Canton Dim Sum restaurants in various cities in China, such as Beijing, Shanghai, Suzhou and Chongqing. There are 16 more planned to commence operation in Beijing, Shanghai, Tianjin, Fujian, Chengdu, Wuhan and Hangzhou by 2022 in collaboration with a private PRC Chinese chain restaurant operator, namely Shenzhen Qianhai Shiweixian Food Co. Ltd.* (深圳前海食為先食品有限公司). Besides, we have been in collaboration with Shanghai Zhichao Brand Management Co., Ltd. (上海至潮品牌管理有限公司), a private PRC food and beverage operators, for the operation of B.Duck-featured modern teahouses in the PRC since 2020. As at 30 June 2021, there were over 160 modern teahouses located in more than 20 provinces and/or municipalities in the PRC. Furthermore, there has been a B.Duck concept store with cafe at Fuzhou Changle International Airport in operation since 2018 in collaboration with a food and beverage operator in the PRC, namely Xiamen Ishijah Trading Co. Ltd.* (廈門伊示雅商貿有限公司). The contract period of our catering LBE licensing agreements generally last for approximately three to five years.


Buffy-featured Canton Dim Sum Restaurant

(iii) *Promotional and marketing events*. Events, including exhibitions, trade shows, live shows, etc., in which we were primarily involved during the Track Record Period were mainly held in shopping malls in China and Hong Kong. As the events are generally one-off and short term in nature, the contract period of events generally lasts approximately one to 12 months.

Examples of notable promotional and marketing events organised by licensees featuring our B.Duck Family Characters under our LBE licensing service during the Track Record Period are set out below:

Date/period	Key description of notable events
June 2018 – May 2021	• B.Duck-themed rooms are available in Wuxi, Wuhan, Chengdu, Chongqing and Jiangsu branches of a hotel chain.
August 2018 – September 2018	• **The First and Biggest B.Duck Event in Malaysia** This event featured an inflatable B.Duck with 35 metres in length and 23 metres in width and was organised at Eco Horizon, Batu Kawan, Malaysia.


December 2017 – June 2019	•	B.Duck is the crossover character in a five-star luxurious international branded hotel located in the western part of Beijing, which provides B.Duck-themed room and B.Duck-themed cafe.
Summer 2019	•	B.Duck-themed rooms at six branches of a hotel chain in Hong Kong, featuring the B.Duck Family Characters themed amusement facilities and themed cuisine.
Summer 2018	•	B.Duck-themed rooms at the foremost five-star beach resort hotel and conference centre in New Territories, Hong Kong were available during the summer holidays in 2018, providing water activities, B.Duck workshop, B.Duck cake and gelato. B.Duck Summer Cruise was also parked at Gold Coast Piazza, featuring Captain B.Duck.
2017 – 2018	•	**Buffy is coming!** This large-scale exhibition showcased Buffy-themed decorations, including a Buffy, a Buffy aeroplane, and seven decorations with different scenes. This exhibition was organised in top-tier shopping malls in Shanghai, Tianjin, Xiamen, Beijing and Nanjing in the PRC.

Promotion Licensing

We license our character IP rights for use on third-party promotional and marketing gifts and promotional items in diverse gift categories from basic gift and premium, ordinary corporate gift to designer gift. The gift categories we offer include apparel and accessories, toys, home lifestyle and living, and consumer electronics specific to customers' promotional campaign needs. We have also expanded into retail and membership bonus point gift redemption for qualified merchants who look for credit card gift redemption, welcome gift, staff loyalty programme, VIP gift, membership bonus point programme, etc. This enables our characters to gain greater publicity and exposure, further driving the growth of our long-term brand value. As promotional activities are generally one-off and short term in nature, the term of promotion licensing contracts generally lasts not more than 18 months.

Examples of notable B.Duck Character-themed promotional and marketing activities are set forth below:

Date/period	Background of the promoter	Key description of notable promotional campaigns
2018	One of the largest health care and beauty care chains in Asia, which consisted of a retail network of more than 3,200 stores, for redemption by more than 64 million members located in more than 430 cities across the PRC	• More than 550,000 pieces of B.Duck-featured promotional products, including apparel and accessories living and personal cares products, were redeemed during the promotional period in the PRC. This promotional programme was awarded the "Best Retailer of the Year" of the China Licensing Award in 2018 by Licensing International.
2018	Dongguan Sugar & Liquor Group Meiyijia Convenience Store Co. Ltd.* (東莞市糖酒集團美宜佳便利店有限公司)	• B.Duck-featured promotional products, including personal and food and beverage products, were redeemed during the promotional period in the PRC.
2017	A leading manufacturer of infant formula in both the US and the world in the PRC	• More than 60,000 pieces of B.Duck-featured promotional products, mainly personal care products, were redeemed during the promotional period in the PRC.
2017	A leading American fast food restaurant chain in the world with more than 2,500 branches in the PRC	• B.Duck-themed birthday party together with B.Duck-featured birthday gifts distributed in the parties, including pencils, pencil bags and game boards, were distributed during the promotional period in the PRC.
2017–2020	China Everbright Bank	• B.Duck-featured promotional products (e.g. stationery, apparel accessories, homeware, etc.) have been distributed for application of B.Duck-featured credit cards during the promotional period in the PRC.

Date/period	Background of the promoter	Key description of notable promotional campaigns
2015–2017	A global leading retailer of groceries and general merchandise, which had more than 1,500 branches in Thailand	• B.Duck-featured promotional products, mainly personal care products, were redeemed under two redemption programmes in Thailand. The promotional programmes also included TV commercials, B.Duck wrapped bus and B.Duck-themed instore promotional decorations.

Content and Media Licensing

In anticipation of the rising digital content and media trend, we have extended into content and media licensing business by licensing our character IP rights from offline content, such as children's books and credit cards, to different digital entertainment and media formats, such as emotion stickers, mobile games, etc. For example, we cooperated with China Everbright Bank, to issue a B.Duck-featured credit card during the Track Record Period. We also used our B.Duck Family Characters to create and design paid emotion stickers on popular messaging platforms such as LINE and KakaoTalk during the Track Record Period. The term of the content and media licensing contracts is determined on a project basis and may generally last for six months to not more than five years.

B Duck-Featured Credit Card

Pricing and payments

Our licensing team typically collects royalty reports from our licensees on a quarterly basis and initiates the invoicing process to assure that the excess royalty payments and guarantee instalments are paid in a timely manner. If our licensees do not report or there is a considerable drop in sales, our licensing team will report the issue to our management. In addition, our licensees are required to put a hologram sticker, which is sold by us at minimal cost, on each of the licensed products before they are available for sale. Our licensing team will regularly check the royalty income against the number of hologram stickers we sold to our licensees as an additional measure to verify the sales volume of the licensed products for the purpose of preventing our licensees from providing us with an understated sales volume of the licensed products, thus lowering the excess royalty (if any) payable to us.

Any significant variance between the sales volume reported by the licensees and the number of hologram sticker sold to our licensees at minimal cost will be investigated by our licensing team. The investigation includes performing site visit on inventory on hand of the licensees and match to such variance.

For provision of design consultation services, we generally charge a fixed fee at a pre-determined lump-sum amount when our customers accept the deliverables of our design work. Such fee is determined on a cost-plus basis, taking into account factors including but not limited to the scope of services and level of complexity requested, number of graphics required and product requirements, the expected level of workload and time involved, prevailing market pricing of similar licensing activities and expected profit margins.

In order to minimise our business risk and to encourage our licensees to sell actively during the contract term, royalties are usually accrued against the guaranteed amount or recouped against the set minimum guarantee. Our licensees are typically required to pay the minimum guarantee in full regardless of the total sales amount. Often once the licensing contract has been fully executed, the licensee is required to pay certain portion of the minimum guarantee, which is a fixed and non-refundable amount, and the total minimum guarantee shall be payable by instalments which typically range from six months to 12 months. We typically set minimum guarantees which are generally determined based on estimated sales quantity of the product agreed between us and our licensees upon execution of the licensing services at a fixed percentage of (i) the wholesale or retail price of the consumer merchandise of our licensees in respect of our merchandise licensing services; (ii) the premium costs of promotional items of our licensees in respect of our promotion licensing services; (iii) the estimated revenue from secondary spending (i.e. retail merchandise food and beverage bought in the theme park, gaming activities and ancillary products) to be generated by the B.Duck Family Characters-featured theme park or the estimated revenue of catering venues in respect of our LBE licensing services; or (iv) the estimated revenue to be generated from the contents in relation to the elements of B.Duck Family Characters in respect of our content and media licensing services. The minimum guarantees are generally paid in regular intervals, typically every six to 12 months over the contract term, and are generally paid ahead of each instalment period. After the minimum guarantees have been exceeded, we charge excess royalties on the exceeded amount in accordance with the royalty reports which are typically issued on a quarterly basis. During the Track Record Period, we recorded excess royalties of approximately HK$4.7 million, HK$16.5 million, HK$33.6 million and HK$18.6 million, respectively. See "Risk Factors — Our historical financial information may not be indicative of financial performance in the future" in this Prospectus for further details.

Revenue from provision of all character licensing services is recognised over the licensing period when we grant licensees the right to use our character IPs. Depending on the nature and scope of our services provided, we typically enter into licensing contracts ranging from approximately six months up to approximately seven years. Based on our Directors' estimation, taking into account the respective terms of our ongoing licensing contracts as at 30 June 2021 which typically require minimum guarantees from the licensees, it is estimated that the revenue to be recognised by us in relation to these contracts would amount to approximately HK$30.3 million in FY2021 and HK$63.3 million in FY2022 and onwards. The amount of revenue to be recognised is subject to, among other things, variation due to the actual sales amounts generated by our licensees from the products, content and services that utilise our character IPs.

We typically grant credit terms to our licensees ranging from 0 to 14 days depending on the provisions as set out in the contracts. Our licensing team will conduct annual financial assessment on each of our licensees. If our licensing team is aware of any potential credit risk from our licensees which may lead to their inability to make payment to us (e.g. bankruptcy of licensee), our licensing team will report the issue to our management team and our finance department to formulate proper actions, including but not limited to terminating the licensing contract and taking appropriate legal action to claim for damages, and to make timely and adequate provision. Settlement of our licensing fees is generally made by bank remittance and denominated in HK dollar, RMB or US dollar. During the Track Record Period, there was no material changes to the payment terms of our licensing contracts.

Principle terms of licensing and licensing agency contracts

(i) Principal terms of licensing contracts

The principal terms of our licensing contracts entered into with our licensees during the Track Record Period are summarised as follows:

Licensing period	:	One month to 12 years depending on the type of licensing services, please refer to "Our Licensing Business" in this section above for further details
Territory of distribution	:	Territories specified as individual jurisdictions for maximum control for the product
Description of the licensed characters	:	Typically include the portrait, design, visual presentation and name of one or more than one characters of the B.Duck Family Characters
Authorised customer and distribution platform	:	For merchandise licensing, our contracts will generally set out the approved distribution channel such as speciality stores, speciality counters, online sales platform, etc.

Rate and payment of licensing fees	:	*Design fee:* fixed amount at a lump sum on a per service basis *Royalty:* (a) merchandise licensing: fixed percentages typically ranging from approximately 4% to approximately 12% of the gross wholesale prices, retail prices or premium costs of each product depending on the category of licensed products; (b) LBE licensing: fixed fee generally for applications of non-sales in nature, e.g. exhibitions and marketing events; and fixed percentages typically ranging from approximately 1.5% to approximately 10% of the turnover, net sales or premium cost for sales nature; (c) promotion licensing: fixed percentages typically ranging from approximately 4% to approximately 12% of the gross wholesale prices, retail prices or premium costs of each product depending on the category of licensed products; and (d) content and media licensing: fixed fee generally for applications of non-sales in nature, e.g. issuance of credit cards; and fixed percentages typically ranging from approximately 2% to approximately 5% of the turnover, net sales or premium cost for sales nature • *Minimum guarantee:* a fixed and non-refundable amount payable by instalment payments which typically range from six months to 12 months • *Excess royalty:* fixed percentage of the gross wholesale prices, retail prices or premium costs when the actual sales quantity is more than the estimated sales quantity and the invoicing progress is typically initiated quarterly
IP protection	:	The product design must be approved by our Group and a hologram sticker should be put on each product. Both licensor and licensee are obliged to take reasonable measures to protect the licensed IP

Exclusivity	:	The agreements will set out whether the licensee is granted the exclusive right to use our character IP in certain product/service and in specified region/jurisdiction. In case the licensee is granted the said exclusive right, our Group shall obtain approval from the relevant licensee before selling the relevant products/services or in specified region/jurisdiction. As at the Latest Practicable Date, as we did not grant any exclusive right to any licensee in respect of the product categories of apparel and bags and the number of licensees who were granted with exclusive right are very limited, our Directors are of the view that (i) we are not subject to any material restraint in selling our products through online sales channels; and (ii) our ability to operate and develop our e-commerce and other business segment is not affected
Sub-licensing	:	Licensees are not allowed to sub-license our character IP
Termination	:	Generally both parties are entitled to terminate the contract by giving not less than one to two months' prior written notice The agreement shall terminate upon the breach of any provision as stipulated in the agreement

(ii) Principal terms of licensing agency contracts

The principal terms of the contracts entered into with our licensing agents during the Track Record Period are as follows:

Scope of services	:	The licensing agents have the obligation to secure and develop local licensees in agreed region/jurisdiction, to supervise such licensees and ensure compliance and performance of their obligation and duties
Term	:	Approximately one to five years
Territory	:	Territories specified as one or more individual jurisdiction(s)
Rate of commission	:	The licensing agent is typically entitled to receive commission at a fixed rate on gross income received from licensees During the Track Record Period, the commission rates ranged from approximately 30% to 50% with an average of approximately 32.5% and the commission fees incurred amounted to approximately HK$1.4 million, HK$0.7 million, HK$0.5 million and HK$0.2 million, respectively

Payment terms	:	Payments are typically remitted on a quarterly basis
Exclusivity	:	The licensing agent would be granted the exclusivity in the agreed region/jurisdiction
Termination	:	We may have the right to terminate the agreement upon written notice if our licensing agents commit a breach of the provisions of the agreement

Our licensing agents

The following table sets forth the movement of our licensing agents during the Track Record Period:

As at 31 December			As at 30 June
2018	**2019**	**2020**	**2021**
5	5	4	4

During the Track Record Period, we engaged in total seven licensing agents for our character licensing business. Our Directors consider that there was no material fluctuation in the number of licensing agents of our Group during the Track Record Period. The decrease in the number of licensing agents from five as at 31 December 2019 to four as at 31 December 2020 was primarily due to the non-renewal and termination of two licensing agency contracts for two licensing agents in view of their unsatisfactory performance, which was offset by the entering into of a new licensing agency contract with a new licensing agent during FY2020. As at the Latest Practicable Date, we engaged four licensing agents for our character licensing business, covering several overseas markets, including Thailand, Philippines, Indonesia, Singapore, Malaysia, South Korea, Mexico, Central America, Caribbean Islands, Chile and Peru. To the best knowledge of our Directors and after making reasonable enquiries, our Directors confirm that all of our Group's licensing agents and their respective ultimate beneficial owners during the Track Record Period and up to the Latest Practicable Date, are Independent Third Parties.

Quality Control

The quality of products or services provided by our licensees to the end consumers is critical to the brand image of our character IPs and the reputation of our Group. Therefore, we impose strict quality control procedures over the entire process from engagement, design and development to the official launch of products or services.

Before engaging a new licensee or licensing agent, we generally conduct evaluation and background check, and consider credentials and attributes of the licensees or licensing agents such as their size of business, experience in the industry, sales channels available, any non-compliance incidents such as sales of counterfeit products noted, etc.

Our design and product assurance process is led by our brand assurance team for our character licensing business, which is part of our design function and comprises six members as at the Latest Practicable Date. It mainly includes our head of design and art director and designers and is involved throughout different stages of the development and production process. Our brand assurance team is led by our head of design and art director, Ms. Tam Nga Chi, who has over 18 years of experience in product design and development. All of our licensees' products have to go through at least three stages of the review process and written confirmation shall be obtained before they are officially launched. The first time is when our licensees submit their own design to us for review. After that, the prototype will be approved by us before production. The last time is when the product is about to be launched as our licensees will be required to provide product samples to us for final approval. After the approval and confirmation from the brand assurance team, our customer management team, which comprises 22 members from our licensing function, led by our executive Director, Mr. Cheung Chin Yiu, who has over 16 years of experience in brand assurance, shall check the historical sales record of the relevant licencees before our hologram stickers are sold to them at minimal cost for each unit of the product and the product can then be officially launched in the market. See "Directors and Senior Management" in this Prospectus for the detailed background of Ms. Tam Nga Chi and Mr. Cheung Chin Yiu. From time to time, we request our licensees to provide us with the quality control report conducted by third party on their licensed products. Furthermore, as to the licensees who are engaged by our licensing agents, apart from our routine quality control procedures imposed on all our licensees, we work with our licensing agents to supervise the licensees engaged by them and to ensure compliance and performance of their obligations and duties, including assisting us in liaising with the local licensees on any suspected non-compliance, collecting the royalty report and monitoring and following up with the payment of royalty.

For catering facilities such as restaurants and cafes, we have also implemented a set of standard quality control procedures, including (i) background check on the experience and scale of the licensee and its franchisees; and (ii) regular check on the central kitchen and catering facilities of the licensee and its franchisees, to ensure the logistics and hygiene level are in line with our requirements.

We conduct annual review on our licensing agents and licensees to evaluate their performance, in particular their sales performance and any records of non-compliance of the contract terms, including our product requirements and quality control procedures. If a repeated sub-standard performance and/or non-compliance records are noted, our Company may remove them from the approved list and refuse to renew contract with them. During the Track Record Period, save as disclosed in "Our Customers — Our Licensees" in this section, we did not early terminate any licensing agreements or remove any licensees or licensing agents.

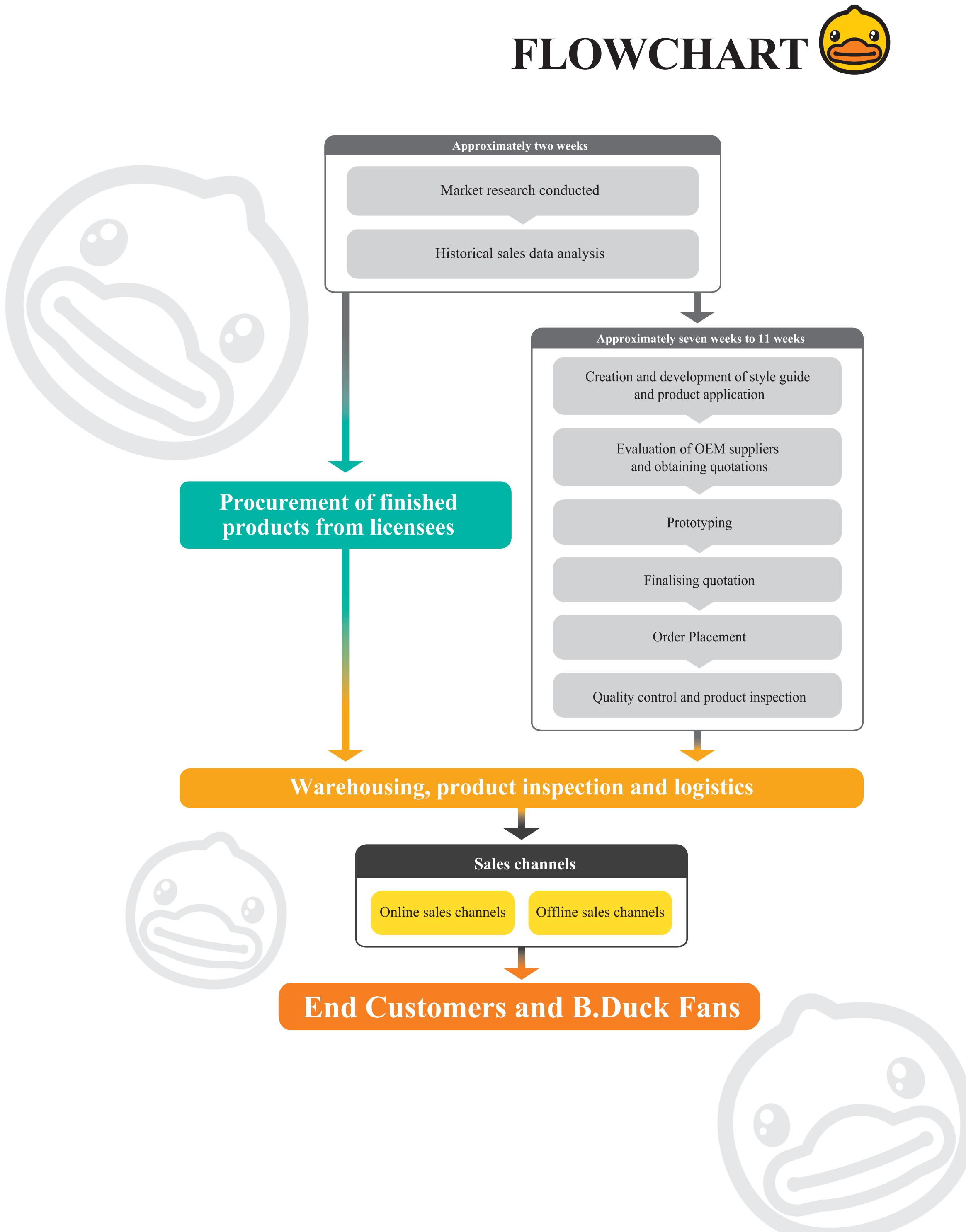
In addition to the above quality control measures, our licensing team will regularly monitor our social platforms and notify our quality assurance personnel once we receive any third-party report or complaint on the platforms regarding the quality of products or services provided by our licensees.

OUR E-COMMERCE AND OTHER BUSINESS

Our e-commerce and other business mainly focuses on the character IP product e-commerce market, being one of the subsegments of the broader IP product e-commerce market, and involves the sales of B.Duck Family Characters-featured products on mainstream e-commerce platforms. Having considered the vast library of characters and style guides and the experience in product design application, we began to explore the possibility of designing and selling our own B.Duck Family Characters-featured products on e-commerce platforms. In 2015, we launched our first online flagship store on Tmall, a well-known business to customer online shopping platform in China. Following our success in the opening of such flagship store, we subsequently expanded onto other e-commerce platforms, such as JD.com, VIP.com and HKTVmall, to offer our products and allow customers to pay online with our products directly shipped from the warehouse to the customers.

Our flagship stores on Tmall

The following diagram illustrates the operation flow for our e-commerce and other business during the Track Record Period and as at the Latest Practicable Date:



We take the following steps when we design our new products:

Step 1: Market trend research and data analysis — Our experienced design, research and development teams conduct comprehensive market research and data analysis to determine the direction of development of our new products. For example, market trend, historical sales performance and feedback from our sales network will be taken into account before developing a new product. As at the Latest Practicable Date, our design, research and development team for our e-commerce and other business have 48 designers and artists and they were mainly stationed in Hong Kong, Shanghai, Shenzhen and Hangzhou.

Step 2: Design and development — Based on the findings from our in-house market research and analysis, our experienced designers and artists will work with our design and brand assurance functions of our character licensing operation and utilise the style guide obtained to apply on our own products. The design graphic shall outline various details of the products, including the dimension and colour to be used etc. After confirming and approval of the design, prototypes of the new product will be created and approved before production.

Step 3: Product procurement — As we do not own any manufacturing facilities in house, we outsource the production of our products to selected domestic OEM suppliers. We evaluate and obtain quotation from domestic OEM suppliers based on various criteria. For details of the criteria on evaluating and selecting OEM suppliers, see "Selection and evaluation criteria of suppliers" in this section. Subsequent to the creation of prototype, we finalise quotation from selected domestic OEM suppliers. We believe that our outsourced manufacturing arrangement enables us to focus on our core strengths in design and marketing of our products, and lower operations and financial risks and expenses for establishing and maintaining production facilities. Our OEM suppliers are responsible for procuring raw materials, carrying out production in accordance with our specifications and providing us with finished products.

Apart from procuring products designed and developed by our in-house design team, we also procure finished products from our licensees of our merchandise licensing business if those products are in line with the results of our market research and data analysis. We procure products from our licensees in batches to prevent overstocking.

Up to 30 June 2021, we offered more than 7,400 SKUs for sale under our e-commerce and other business.

Our Directors consider that there is no material competition between our Group's e-commerce and other business with that of our licensees under the character licensing business based on the following factors:

(i) **Delineation in product offerings.** During the Track Record Period, there was a delineation in the major products sold by our Group under the e-commerce and other business and those by our licensees. Female clothing, being our Group's major product type under its e-commerce and others business in terms of revenue, contributed approximately HK$92.9 million, HK$114.4 million, HK$108.8 million and HK$49.8 million, which accounted for approximately 67.8%, 70.9%, 80.3% and 76.8% of the revenue of our e-commerce and other business, respectively, during the Track Record Period. Having considered that (a) only one licensee was granted licence to develop and sell the B.Duck Family Characters-featured female clothing, where such licence was granted prior to the Track Record Period under the broader category of licensed goods of "adult clothing"; and (b) our Group did not grant any new licence for the development and sales of B.Duck Family Characters-featured female clothing during the Track Record Period, our Directors consider that there was no material and direct competition between our licensees and us. Further and in the alternative, our Directors consider that, even in the case that a licensee is granted a licence for the sales of product which is in the same product category with that offered by us under our e-commerce and other business, it does not necessarily lead to a direct competition between our Group and such licensee, given that our Group and such licensee could diversify the product offerings into different sales channel and potential customer demographic;

(ii) **Limited revenue contribution by products procured from licensees.** Our Group occasionally procured from our licensees finished merchandises featuring B. Duck Family Characters developed by them, such as consumer electronics, car accessories and travelling items, all of which fall into the categories of (a) bags; and (b) others under our e-commerce and other business. The revenue attributable to the products procured from our licensees only amounted to approximately HK$1.4 million, HK$5.6 million, HK$9.9 million and HK$8.1 million for FY2018, FY2019, FY2020 and 6M2021, respectively, accounting for approximately 1.0%, 3.5%. 7.3% and 12.6% of our aggregate revenue under the e-commerce and other business for FY2018, FY2019, FY2020 and 6M2021, respectively. Despite the revenue attributable to the products procured from our licensees increased during the Track Record Period, the percentage of purchase of our Group from our licensees to the revenue generated from them using our Group's licences decreased significantly after FY2018 as the number of our licensees increased and our licensees have been diversifying their product offerings, the revenue generated by our licensees increased significantly. Our Directors consider that, in light of the limited revenue contribution and types of the products procured from our licensees, the extent and risk of competition between our e-commerce and other business and that of our licensees, if any, are minimal and manageable. Furthermore, our Directors are of the view that, instead of having a direct competition with our licensees, our Group's e-commerce and other business instead would serve as an additional sales channel for our licensees to sell the licensed products which brings together various kinds of products developed by them and would attract more fans and promote the brand image of our Group. Negotiation of the terms of the licensing arrangement and purchase of finished products were conducted on an individual basis and our licensees have the discretion on whether to sell the products to us; and

(iii) **Different product design.** In the course of our Group's business operation, the product design functions of the character licensing business and the e-commerce and other business are separated such that the product designs for our licensees and those for our e-commerce and other business are different. Besides, during the product approval process, the brand assurance team is involved to ensure the product designs are not repeated or duplicated. Based on the aforesaid, our Directors consider that there would not be a material competition between our Group and our licensees as the product designs are different and unique.

Our Product Portfolio

Our products offered through our e-commerce and other business can be broadly divided into three major categories as follows:

Major product category	Examples of consumer merchandise	Approximately retail price range during the Track Record Period
Apparel	female clothing including, t-shirt, jacket, sweater, skirt, trousers, etc.	HK$10 – HK$2,500

Sweater

T-shirt

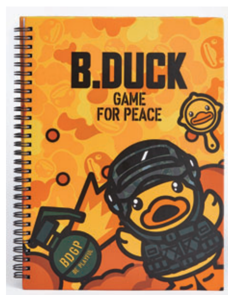
Bags	backpack, handbags, luggage, etc.	HK$10 – HK$1,500

Backpack

Luggage

Major product category	**Examples of consumer merchandise**	**Approximately retail price range during the Track Record Period**
Others	stationery, packaged food and beverage, car accessories, bathroom products, etc.	HK$10 – HK$1,600

Notebook



Toothbrush

The table below sets forth a breakdown of our revenue by major product category generated from the e-commerce and other business during the Track Record Period:

	FY2018		**FY2019**		**FY2020**		**6M2021**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Apparel	92,932	*67.8*	114,408	*70.9*	108,755	*80.3*	49,792	*76.8*
Bags	31,521	*23.0*	31,538	*19.5*	12,850	*9.5*	4,758	*7.4*
Others	12,584	*9.2*	15,470	*9.6*	13,871	*10.2*	10,251	*15.8*
	137,037	*100.0*	161,416	*100.0*	135,476	*100.0*	64,801	*100.0*

Our Sales Network

We mainly sell our B.Duck Family Characters-featured merchandise through various sales channels. As at 30 June 2021, our sales network consisted of (i) online sales channels, including our Tmall flagship store and other major e-commerce platforms in China and Hong Kong; and (ii) offline sales channels, including wholesale, consignment stores and bulk purchase by corporate customers.

The following table sets forth a breakdown of revenue by sales channels under e-commerce and other business during the Track Record Period:

	FY2018		FY2019		FY2020		6M2021	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Revenue generated from online sales channels								
Tmall	112,424	*82.0*	115,581	*71.6*	101,446	*74.9*	44,939	*69.3*
VIP.com	6,707	*4.9*	20,079	*12.4*	24,211	*17.9*	14,155	*21.8*
JD.com	925	*0.7*	2,369	*1.5*	3,250	*2.4*	2,039	*3.2*
HKTVmall	–	–	–	–	256	*0.2*	447	*0.7*
Douyin	–	–	–	–	–	–	401	*0.6*
Others	118	*0.1*	848	*0.5*	695	*0.5*	230	*0.4*
	120,174	*87.7*	138,877	*86.0*	129,858	*95.9*	62,211	*96.0*
Revenue generated from offline sales channels[(1)]	16,863	*12.3*	22,539	*14.0*	5,618	*4.1*	2,590	*4.0*
Total	137,037	*100.0*	161,416	*100.0*	135,476	*100.0*	64,801	*100.0*

Note:

(1) Revenue generated from offline sales channels include sales through wholesales and consignment stores during the Track Record Period.

Online Sales Channels

E-commerce Platforms

Online shopping has become increasing prevalent in China and Hong Kong. According to the Frost & Sullivan Report, the e-commerce market of licensed goods in China is expected to grow from HK$37.3 billion to HK$65.0 billion from 2021-2025 at a CAGR of 14.9% while character licensed IP products is expected to account for around 55.6% of the total market GMV in 2025. To capture this market trend and to make our B.Duck Family Characters-featured products available to end-customers around the clock throughout the year, we sell our products through e-commerce platforms, such as Tmall, JD.com, VIP.com and HKTVmall etc. We believe that the use of third party e-commerce platforms enables us to extend our geographical coverage and customer reach without having to physically establish a large number of retail stores. Our Directors believe that this arrangement will accelerate the growth of the popularity of our character IPs and allow us to reach our customers in regions where we do not have a physical presence.

In 2015, we first started operating our flagship store on Tmall, which has become one of our key channels to attract new fans. During the Track Record Period, revenue generated from our Tmall flagship store, amounted to approximately HK$112.4 million, HK$115.6 million, HK$101.4 million and HK$44.9 million, respectively. Following our success in the opening of such flagship store, we subsequently expanded onto other e-commerce platforms and reached a total of 11 platforms, including but not limited to JD.com, VIP.com and HKTVmall as at 30 June 2021. During the Track Record Period, our revenue generated from the e-commerce platforms amounted to approximately HK$120.2 million, HK$138.9 million, HK$129.9 million and HK$62.2 million, respectively, representing 87.7%, 86.0%, 95.9% and 96.0% of our total revenue for our e-commerce and other business for the respective periods. As at the Latest Practicable Date, we have sold more than 7,400 SKUs through e-commerce platforms under our e-commerce and other business.

The following table sets forth the breakdown of our revenue by online sales channels under our e-commerce platforms under our e-commerce and other business for the periods indicated:

	FY2018		**FY2019**		**FY2020**		**6M2021**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Tmall	112,424	*93.5*	115,581	*83.2*	101,446	*78.1*	44,939	*72.2*
VIP.com	6,707	*5.6*	20,079	*14.5*	24,211	*18.7*	14,155	*22.8*
JD.com	925	*0.8*	2,369	*1.7*	3,250	*2.5*	2,039	*3.3*
HKTVmall	–	–	–	–	256	*0.2*	447	*0.7*
Douyin	–	–	–	–	–	–	401	*0.6*
Others	118	*0.1*	848	*0.6*	695	*0.5*	230	*0.4*
	120,174	*100.0*	138,877	*100.0*	129,858	*100.0*	62,211	*100.0*

Our agreements with e-commerce platform operators typically require an e-commerce platform operator to provide us with the necessary software systems and related technical support that enable us to conduct business on its platform. We are subject to the general administration of the e-commerce platform operator. For instance, we are required to provide fair and accurate information for products sold on the e-commerce platforms. According to the relevant agreements, we pay service charges to such e-commerce platforms for operation, marketing and technical support services. Such service charges primarily consist of (i) commissions, which are generally at standard fee rates of our sales on the e-commerce platforms, and (ii) marketing and technical support fees, which are charged based on usage and are not directly based on our sales. In respect of the major e-commerce platforms we used, we are typically charged at around 5%–8% of our total sales on those platforms, which is subject to change by the e-commerce platforms from time to time. We are also required to pay an annual deposit to ensure our compliance with the respective rules and regulations of each e-commerce platform operator. Such deposits are normally refunded subsequent to the termination of contracts after deducting any applicable penalties. Payments from the sales of our products through the e-commerce platforms are collected either by the e-commerce platform operators. And the monthly sales proceeds shall be paid within three to seven business days after we issue invoices for the payment. We are also required to provide quality certificates of our products and relevant licences and are subject to periodic quality inspect of the e-commerce platforms. We have also agreed to indemnify the e-commerce platforms in certain circumstances, including the monetary fines, settlement payment or any associated costs and expenses which would be incurred by the e-commerce platforms in connection with quality issues of our products.

During the Track Record Period, we incurred e-commerce platform usage fee of approximately HK$16.2 million, HK$17.0 million, HK$14.4 million and HK$6.7 million, respectively.

We also sell our products through an e-commerce platform operator (the "**E-commerce Platform Operator**"), which is one of our five largest customers during the Track Record Period and stated as Customer A in this Prospectus, to the end customers in which we generally deliver inventories to the warehouses of the E-commerce Platform Operator and the same will be listed on their e-commerce platform for sale. Subsequently, they will fulfil the order to the end customers. During the Track Record Period, our sales arrangement with the E-commerce Platform Operator was different from that of other major e-commerce platforms engaged by us in which we would sell our products to the E-commerce Platform Operator directly without recourse and they would then generally add a markup to the selling price and sell our products to the end customers. We recognised revenue from retail sales when the products were delivered to the end customers and the E-commerce Platform Operator did not charge any online platform usage fee during the Track Record Period. During the Track Record Period, our revenue generated from such E-commerce Platform Operator amounted to approximately HK$6.7 million, HK$20.1 million, HK$24.2 million and HK$14.2 million, respectively, representing approximately 3.3%, 8.3%, 10.4% and 11.4%, of our total revenue for the same periods. Our Directors confirmed that there was no material sales return during Track Record Period.

We have entered into a framework agreement with such E-commerce Platform Operator and it is for one year and renewed on an annual basis. Pursuant to the relevant agreement, we supply the products as specified by them and deliver the same to the designated location and bear the shipping expenses and insurance. As to the pricing of the products, we provide recommended retail price to them and we retain the right to adjust such recommended retail price. They are required to provide us with a monthly sales report and make full payment to us within five business days after receipt of the invoice issued by us. In respect of product return, we accept return for any product that (a) does not conform to the agreed specification or to samples; (b) are not sold during the specified sales period; (c) are returned by their customers; and (d) are worn and torn during storage. In respect of termination, the E-commerce Platform Operator can terminate the agreement in certain circumstances such as (a) breach of agreement; and (b) the e-commerce platform operator suffering from business reputation risk caused by us.

Live Streaming Sales

According to the Frost & Sullivan Report, the live streaming e-commerce market in China grew from HK$2.0 billion in 2016 to HK$1,463.9 billion in 2020 at a CAGR of 420.1% and the market is anticipated to reach HK$6,571.5 billion in 2025 at a CAGR of 32.9% from 2021 to 2025. In view of the rapid growing trend of the live streaming e-commerce market in China, we built our first live streaming sales team and commenced our live streaming sales campaign in FY2019 as an extension to our existing online sales channel and to capture the increase in popularity of such sales channels. As at the Latest Practicable Date, our live streaming sales team consisted of nine members.

We primarily operate our live streaming sales through Tmall and to a lesser extent, on Douyin. Subsequent to our early stage of development in FY2019, we gradually increased the frequency of our live streaming sessions and as at the Latest Practicable Date, we typically operate more than 20 live streaming sessions per month with each session generally lasts for approximately four hours. In the course of the live streaming session, our staff hosts such session to try on and promote our B.Duck Family Characters-featured products and interact with the viewers. Through such feature, potential customers are able to gain a more comprehensive impression of the products. Besides, if a viewer is interested in the relevant product, he can purchase such product through the embedded links to our store on the relevant e-commerce platform while watching the livestream.

During Track Record Period, we engaged a number of KOLs for promotion and marketing purposes but we have yet to start engaging any KOL to host our live streaming session and all of the sessions were hosted by our live streaming sales team members as our live streaming sales campaign to still at the developing stage. With limited resources allocated to our live streaming sales team, we recorded revenue of approximately HK$0.4 million through Douyin for 6M2021 and GMV of approximately HK$1.7 million directed through our livestreams on Tmall for the three months ended 31 July 2021. It is our Group's plan to strengthen our live streaming sales team by engaging a MCNs and collaborate with external KOLs going forward. For details, please refer to "Strengthening our new economy online sales channels" in this section above for further details.

As advised by our PRC Legal Advisers, the PRC governmental authorities have in recent years promulgated certain new laws and regulations which have an impact on live streaming sales. For instance, the Provisions on Ecological Governance of Network Information Content* (網絡信息內容生態治理規定), which was promulgated in December 2019 and became effective in March 2020 and the Administrative Measures for Livestreaming Market (for Trial Implementation)* (網絡直播營銷管理辦法(試行)) which was promulgated in April 2021 and became effective in May 2021. In particular, the Administrative Measures for Livestreaming Market (for Trial Implementation) expressly stated that livestream marketers (in the case of our Group, our live streaming hosts, including potential KOLs to be engaged as the host of our live streaming sessions) shall abide by laws, regulations and the relevant state provisions, follow the public order and morals, and publish commodity or service information truthfully, accurately and comprehensively, and must not engage in, among others, (i) the publication of false and misleading information to deceive or mislead the users; or (ii) the marketing of products or goods which would infringe intellectual property rights or do not fulfill the requirements for personal and property safety. Furthermore, the PRC governmental authorities may promulgate other new laws and regulations in the future which may have an impact on our live steaming sales campaign and/or the hosts of our live streaming sessions. In view of the tightening of the relevant laws and regulations in the PRC, we have adopted a series of measures to ensure that our live streaming sales operation would be in compliance with the relevant laws and regulations. As part of the recruitment procedure for our lives streaming hosts, we would conduct reference check with the former employer and conduct desktop check to see if there is any negative media coverage in respect of the conduct of such candidate in the live streaming field. As to monitoring the host's conduct and ensuring they do not engage in any improper sales practices or other misconduct, we have a policy in place which sets out the responsibilities and code of conduct to be abided by our host. In particular, in accordance with such policy, we require our host not to engage in any action which would be in breach of the laws and regulations and to maintain a good public image, behaviour and ethics. To ensure our live streaming session hosts are in compliance with our policy and code of conduct, we monitor their performance and conducts by carrying out regular checks and appraisals. As to making sure we are in compliance with the latest laws and regulations which may have an impact on our live streaming sales operation, our Group will from time to time consult our legal advisers in respect of the latest development of the relevant laws and regulations and offer training sessions to the existing and newly recruited personnel for our live streaming sales operation to keep them updated of the latest regulatory development, as appropriate. Furthermore, apart from checking if the host has reached the relevant performance indicators, we also assess whether there is any improper sales practices or other misconduct during our live streaming sessions. Besides, we monitor viewers' responses in respect of our live streaming sessions for evaluation purpose. Based on the above series of measures taken by our Group and the adoption of internal policy and code of conduct to cater for the new laws and regulations on live streaming sales, as advised by our PRC Legal Advisers, our Directors consider that the recently implemented regulations concerning live streaming sales activities and the hosts would not have a material adverse impact to our Group's plan to expand our live streaming sales on e-commerce platforms in view that we have control on our in-house KOLs, safety and quality of our products, have adopted the corresponding policy and code of conduct to monitor the third-party MCNs and will strictly implement the above internal control measures.

Offline Sales Channels

Consignment Stores

As at 30 June 2021, we had more than 10 consignees in Hong Kong. During the Track Record Period, we, as consignor, recorded revenue of approximately HK$2.2 million, HK$2.2 million, HK$0.9 million and HK$0.4 million from consignees, respectively. Our consignees' stores include mainly department stores and book stores. By selling our B.Duck Family Characters-featured products through consignees' stores, we are able to leverage on their brand name and allow us to market our brand and products and expand our sales network without incurring additional resources for opening and operating our own store.

We generally enter into consignment agreements with our consignees. Under such consignment agreements, the title to the products remains with us until the products are sold to the end customers. Our consignees generally deduct a pre-agreed percentage of our consignment sales made at their stores.

The consignees generally provide a monthly statement in respect of the sales at our consignment stores. We reconcile the report with records maintained by our accounts department. We recognise monthly sales at our consignment stores up to each month-end based on the month-end records of our accounts department reconciled with the consignee's corresponding monthly statement which is generally available in the middle of the following month delivered by our consignees. Our sales supervisors conduct regular site visits to review sales and performance of our products in our consignees' stores. We also maintain frequent communication with our consignees and monitor the sales performance of our consignee stores, which allows us to receive market feedback from such sales channels.

Pricing and Payments

In determining the retail price for our products on our offline and online sales channels, we take into account a variety of factors, including the demand of our products, anticipated market trends, costs of purchases from our OEM suppliers, our licensees and other product suppliers as well as the expected profit margin. We review and adjust our product prices periodically based on these factors and other general market conditions. We also from time to time participate in various promotional activities of e-commerce platforms that offers discounts to customers.

Quality Control

We are committed to maintaining a high level of quality in our products and we therefore implemented quality control measures. We regularly engage external quality control and assurance experts to conduct inspection at the production facility of our OEM suppliers. They will conduct the quality checking based on various standards and compile a report on each batch of the products. Upon satisfaction of the quality check at the warehouse, samples of the finished products will also be sent to our brand assurance and customer management functions of the character licensing operation for further confirmation and approval before they are officially launched. The external quality control and assurance expert is also responsible for inspection of the products supplied to us by our licensees. Inspections are also conducted on finished products at the warehouse. See "Risk Factors — Failure in product quality control and manufacturers' non-compliance may adversely affect our business" for more details.

With respect to the handling of our customers' complaints and enquiries, our sales team is also trained to respond to all customer concerns in a timely manner.

As to our product return policy, in respect of the products we sell through e-commerce platforms in the PRC, we comply with the relevant PRC consumer protection laws with respect to policies on the return of merchandise. We generally provide product return or replacement with the same product regardless of whether there is any product defect within seven days of the receipt of the product. In case a customer wishes to return the purchased product, he may submit the return request on the relevant e-commerce platform within the specified timeframe. After reviewing and approving the relevant return request, the relevant e-commerce platform would arrange its logistic service provider to pick up the returned products or the relevant customer can return the products on their own. Save for the return of defective products, all returned products are required to be in good condition and suitable for resale. For sales through other channels, we generally only accept product return from our customers for defective products.

During the Track Record Period, our Group's sales return amounted to approximately HK$28.0 million, HK$45.5 million, HK$51.1 million and HK$27.9 million, respectively. Our sales return rate amounted to approximately 18.9%, 24.7%, 28.2% and 29.2%, respectively, which are calculated based on the amount of sales returns divided by gross revenue from sales through online sales channels under our e-commerce and other business. Our Directors consider that the increase in sales return rate from approximately 18.9% in FY2018 to 28.2% in FY2020 is primarily due to the increase in the proportion of apparel sold from approximately 67.8% to approximately 80.3%, in which the sales of apparel products are typically subject to a higher sales return rate as compared to our other products as advised by Frost & Sullivan. Our sales return rate for the six months ended 30 June 2021 remained relatively stable at approximately 29.2%.

According to the Frost & Sullivan Report, the average sales return rate (i.e. the sales value of product return in percentage of total order sales value) of female apparel products and bags in e-commerce market of PRC is typically ranging from 15% to 40%, and our Directors considered that our sales return rate is in line with the industry norm.

During the Track Record period and up to the Latest Practicable Date, we did not, due to material product quality issues, (i) receive any material product return request from our customers; or (ii) receive any material complaints from our customers. Furthermore, during the Track Record Period and up to the Latest Practicable Date, to the best knowledge and belief of our Directors having made all reasonable enquiries, we did not experience any material incident of product recall or other product safety issues.

OUR CUSTOMERS

During the Track Record Period, our customers primarily consist of (i) our licensees; (ii) our fans; and (iii) our wholesale customers.

Our Licensees

During the Track Record Period, we had an extensive licensing network of more than 300 licensees and seven licensing agents that covered a diverse range of consumer sectors and gained a widespread reach to consumers across different regions with a core focus in Asia, including China, Hong Kong and SEA etc. This extensive licensing network, along with the long-term relationships we have established with our key licensees and licensing agents, allows us to introduce and reinforce our character IP rights in the selected markets, increase our brand awareness in the marketplace and create additional revenue streams.

The following table sets forth the accumulated number of licensees (exclusive of licensing agents) we had established business relationship with as at 30 June 2021:

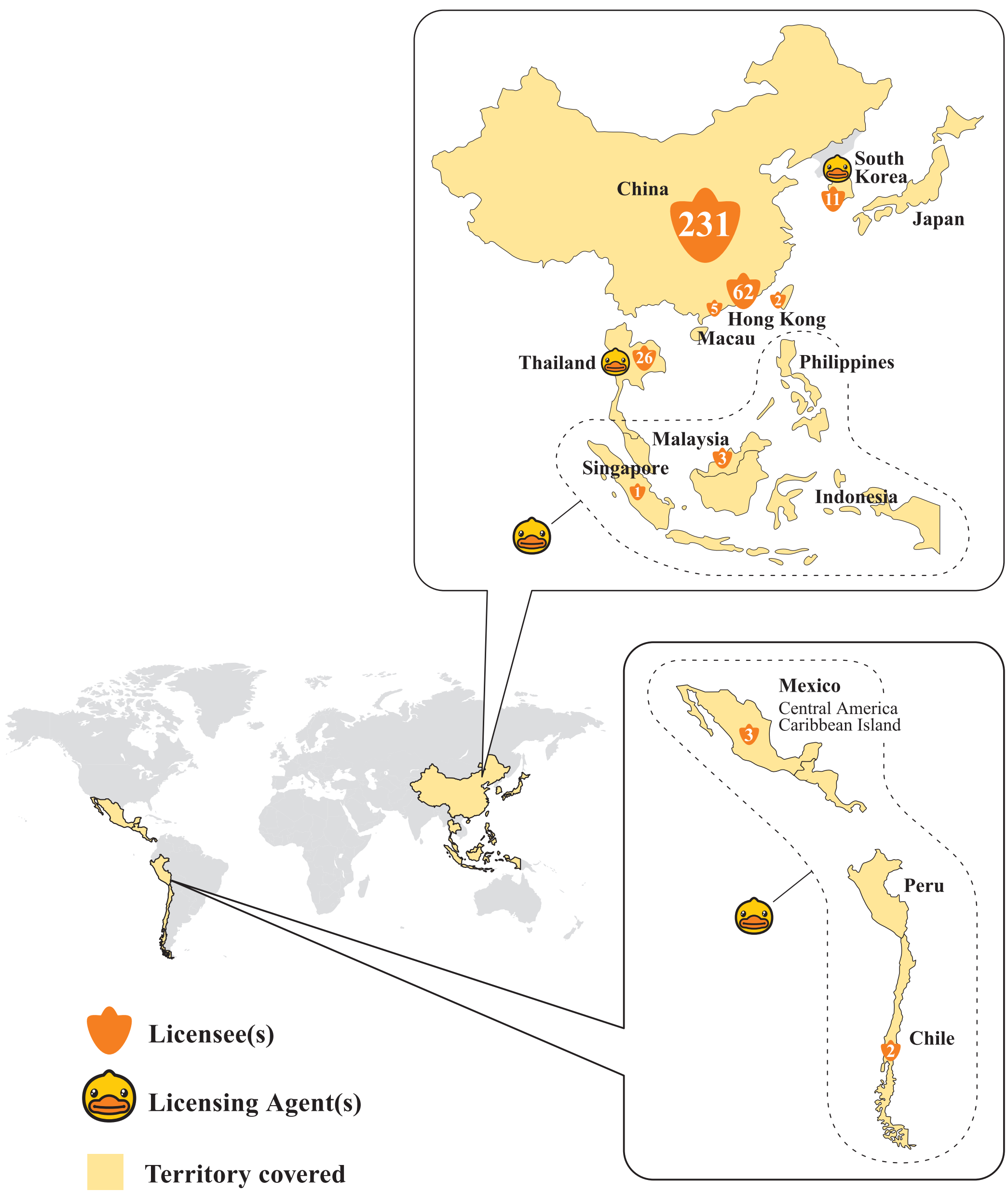
	Number of Licensee
As at the beginning of FY2018	125
Add: New licensees	63
Less: Terminated licensees	(4)
As at the end of FY2018/beginning of FY2019	184
Add: New licensees	80
Less: Terminated licensees	0
As at the end of FY2019/beginning of FY2020	264
Add: New licensees	60
Less: Terminated licensees	(9)
As at the end of FY2020/beginning of FY2021	315
Add: New licensees	32
Less: Terminated licensees	(1)
As at 30 June 2021	346
Add: New licensees	20
Less: Terminated licensees	0
As at the Latest Practicable Date	366

During the Track Record Period, 16 of our character licensing contracts were early terminated, mainly attributable to the failure to comply with the payment terms of the licensing agreements caused by the financial difficulty of the relevant licensees. The total outstanding licensing fee of such contracts was approximately HK$3.8 million, representing less than 0.5% of our total revenue during the Track Record Period. There had been no early termination of our characters licensing contract since 30 June 2021 and up to the Latest Practicable Date. To the best knowledge of our Directors and after making reasonable enquiries, our Directors confirm that all of our Group's licensees and their respective ultimate beneficial owners during the Track Record Period and up to the Latest Practicable Date, are Independent Third Parties.

During the Track Record Period, the renewal rate of our merchandise licensing contracts was approximately 54.8%, 48.9%, 44.1% and 44.4%, respectively. The renewal rate is calculated by dividing the number of renewed contracts by the number of completed contracts. Our Directors consider that such relatively low renewal rates are primarily attributable to the fact that there was certain portion of customers who engaged us merely for a one-off basis and did not intend to renew subsequent to the expiry of the contracts during the Track Record Period.

As to the decrease in the renewal rate from approximately 54.8% for FY2018 to approximately 48.9% for FY2019, our Directors consider that it was primarily due to the expiry of three one-off and short-term licensing contracts with a term ranging from six and nine months which were shorter than the typical duration of our merchandise licensing contracts. Without taking into account the aforesaid licensing contracts, the renewal rate would have been approximately 52.3% for FY2019. As to the further decrease in renewal rate from approximately 48.9% for FY2019 to approximately 44.1% for FY2020, our Directors consider that it was primarily due to the increase in the number of non-renewal of licensing contracts with a contract sum below HK$300,000 as compared to that of FY2019. Our Directors consider that such increase in non-renewal was primarily attributable to the outbreak of COVID-19. Our renewal rate for the six months ended 30 June 2021 remained relatively stable at approximately 44.4%.

The following map illustrates our geographical coverage worldwide as at 30 June 2021:



We directly manage our licensees in China, Hong Kong and Macau. For other overseas markets, such as Thailand, South Korea, Malaysia, Mexico, Chile and Peru etc, we manage our licensees by engaging licensing agents who we believe they are well connected and possess the required experience to assist us in the overseas operation. The licensing agents are responsible for negotiating the character licensing contracts, managing product approval and sales reporting process and receipt of royalty income in their designated territories, subject to our final approval. We believe their local connection and expertise in the target markets can help us to expand sales channels and localise products in an effective manner.

As to monitoring the performance of and the compliance of the relevant terms of the licensing agreements by our licensees, we have adopted the following measures:

(a) in terms of licensed products development, various approvals have to be obtained by our licensees during different product development stages from our Group before a new licensed product is launched into the market and every unit of licensed products sold in the market should bear the hologram sticker sold by our Group. We also conduct regular checking on our licensees' compliance with such policy;

(b) in terms of ascertaining licensing fees, our licensees are generally required to submit royalty reports of our Group quarterly such that we can assess the amount of excess royalties payable. We also cross-check the royalty reports against the number of hologram stickers sold by our Group to our licensees when making such assessment;

(c) in terms of collection of licensing fees, our finance department is responsible for monitoring the billing schedule and the outstanding balance of our licensees. They would regularly communicate and follow up with the licensing team of our Group on the billing to and collection of royalties from our licensees; and

(d) we would conduct annual review on our licensees to evaluate their performance, including their sales performance and bill settlement, and their compliance with the terms of the relevant licensing agreements.

At the start of the discussion with a prospective licensee or a licensing agent, a confidentiality or a non-disclosure agreement might be required to ensure secrecy of our character IP rights. When selecting a licensee or a licensing agent, we mainly take into account factors such as, among other things, their financial strength, sales channels, manufacturing capabilities in terms of product quality and reputation. We review and evaluate the performance of our licensing agents on an annual basis. We also collect feedback from our licensees and review the service quality of our licensing agents to determine whether any replacement is needed. In such review and evaluation, we take into consideration a variety of factors such as (i) fulfilment of their obligations under the agreements/arrangements with us and/or our licensees; (ii) their service quality; and (iii) contribution to our geographical expansion.

Furthermore, to prevent competition among our licensees, our Group would perform customer acceptance assessment and review whether the proposed product type in which the prospective licensee is interested in obtaining the license would overlap with that of our existing licensees. In case there is a licensee who has already been granted the licence for the same type of product, we would consider whether the proposed sales channels, market positioning of the products, geographical coverage of the sales network and the demographics of the targeted customers of that prospective licensee would differentiate from those of the existing ones. Our Group has the sole discretion to decide whether to refuse the granting of licence in case there is a significant concern on potential competition between our licensees. Besides, subsequent to the entering into of the licensing agreement, our Group would continue to assess if the products and/or conduct of our licensees may lead to a competition among themselves through different stages of business operation. For instance, our licensing team would conduct sample checks on the sales channels in which our licensees' products are distributed to ensure that those licensed products are only sold on sales channels that are consistent with the aforesaid customer acceptance assessment and the relevant licensing agreements. Our Directors consider that, as there was no material overlapping in the approved product types of our licensees during the Track Record Period and our internal control policies as mentioned above had been in place to prevent potential competition among our licensees, there was no material competition among our licensees during the Track Record Period.

In order to maintain the market demand, we constantly update our core character IP rights and work with our licensees and licensing agents to create new products lines, promotional activities, marketing campaigns, and other programmes to keep our character IP rights relevant in the eyes of retailers and consumers.

The following table sets forth a breakdown of our revenue by type of licensees during the Track Record Period:

	FY2018		**FY2019**		**FY2020**		**6M2021**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Merchandisers	30,321	*47.5*	55,146	*67.5*	76,362	*78.0*	52,429	*88.9*
Marketing and promotion agencies	9,056	*14.2*	3,611	*4.4*	2,882	*2.9*	641	*1.1*
LBE operators	20,414	*32.0*	14,754	*18.1*	12,969	*13.2*	5,033	*8.5*
Bank	4,036	*6.3*	6,765	*8.3*	5,536	*5.6*	692	*1.2*
Others *(Note)*	–	–	1,354	*1.7*	289	*0.3*	177	*0.3*
	63,827	*100.0*	81,630	*100.0*	98,039	*100.0*	58,972	*100.0*

Note: Others include independent brand operators to whom we provided design consultation services.

During the Track Record Period, the major licensees of our merchandise licensing business were primarily PRC private companies and a number of them were also the five largest customers of our Group, namely, Lixun Group Limited* (利訊集團有限公司), Guangzhou Lichen Trading Company* (廣州麗琛商貿有限公司), Haoshou (Fujian) Sporting Goods Co., Ltd* (號手(福建)體育用品有限公司), Guangdong Lede Interactive Entertainment Company* (廣東樂的互動娛樂股份有限公司) and Blackhorse Technology (Shanghai) Limited* (黑馬科技(上海)有限公司). Besides, they included various merchandisers for different kinds of products such as thermos bottle, toys, bags and luggage. Up to the Latest Practicable Date, we have established business relationship ranging from two to five years with them.

During the Track Record Period, the contract sum per contract entered into by our Group with our customers ranged from approximately HK$4,400 to HK$8.9 million with an average of approximately HK$0.7 million. Our licensing contracts typically last for six months to seven years with an average of approximately 18 months. The table below sets forth the expiration schedule of the ongoing licensing contracts as at 30 June 2021 we entered into for each of our service types:

	Number of contracts	**Total contract sum**	**Outstanding contract sum as at 30 June 2021**
		HK$'000	*HK$'000*
Merchandise licensing	134	133,693	74,747
LBE licensing	14	17,781	10,582
Content and media licensing	3	5,099	2,860
Promotion licensing	1	2,348	1,749
Design consultation	110 *(Note)*	52,901	3,666
		211,822	93,604

Note: As at 30 June 2021, there was no separate design consultation services contract subsisting. There were approximately 110 contracts which provided for both design consultation services contracts and licensing services and those contracts were counted as both design consultation services contracts and contracts for the licensing services involved.

Subsequent to the Track Record Period and up to the Latest Practicable Date, our Group has secured approximately 28 new merchandise licensing contracts, seven new LBE licensing contracts and two new promotion licensing contracts and the net contract sum of contracts awarded/terminated during such period amounted to approximately HK$23.6 million.

Wholesale customers

During the Track Record Period, our products were also sold to other customers, such as wholesaler, indoor playground company, utility company and education institute etc, which primarily purchased our products for their own business operations, promotion use or for providing services to their respective customers. As at the Latest Practicable Date, we did not experience any material sales returns or exchanges from our wholesale customers.

Our Five Largest Customers

During the Track Record Period, the aggregate revenue attributable to our five largest customers were approximately HK$28.8 million, HK$60.1 million, HK$65.3 million and HK$34.8 million, which accounted for approximately 14.3%, 24.8%, 28.1% and 28.1% of our total revenue, respectively. For the same periods, our largest customer in each year during the Track Record Period contributed approximately HK$7.1 million, HK$22.5 million, HK$28.4 million and HK$14.2 million, which accounted for approximately 3.5%, 9.3%, 12.2% and 11.4% of our total revenue, respectively. Up to the Latest Practicable Date, we had established business relationship ranging from one to 13 years with our five largest customers.

The tables below set out the revenue generated from our five largest customers during the Track Record Period.

6M2021

Rank	Customer	Background and principal activities	Business segment/product type involved	Business relationship commenced since	Typical credit term/ payment method	Revenue	% of total revenue
						HK$ million (Approximately)	*(%) (Approximately)*
1	Customer A	An online discount retailer for brands in China and a subsidiary of a public listed company whose shares are listed on the New York Stock Exchange	E-commerce and other business	2014	Upon issue of invoice by bank remittance	14.2	11.4
2	Lixun Group Limited* (利訊集團有限公司)	A private company principally engaging in the manufacturing, distribution and retailing of apparels, footwear products and accessories in the PRC	Merchandise licensing; Design consultation	2017	Upon issue of invoice by bank remittance	11.9	9.6
3	Guangzhou Lichen Trading Company* (廣州麗琛商貿有限公司)	A private company principally engaging in the sales of baby personal care products and owned by an individual who is an Independent Third Party as at the Latest Practicable Date. Its business scope includes, among others, wholesale and retail sales of cosmetics and hygiene products, and it has a registered capital of RMB10 million	Merchandise licensing; Design consultation	2018	Upon issue of invoice by bank remittance	3.9	3.2
4	Haoshou (Fujian) Sporting Goods Co., Ltd* (號手(福建)體育用品有限公司)	A private company principally engaged in production and sales of swimwear and owned by an individual who is an Independent Third Party as at the Latest Practicable Date. Its business scope includes, among others, wholesale and retail sales of sporting goods, apparel, shoes, hat and textile and it has a registered capital of RMB10.0 million	Merchandise licensing; Design consultation	2019	Upon issue of invoice by bank remittance	2.7	2.2

Rank	Customer	Background and principal activities	Business segment/product type involved	Business relationship commenced since	Typical credit term/ payment method	Revenue	% of total revenue
						HK$ million	*(%)*
						(Approximately)	*(Approximately)*
5	Guangdong Lede Interactive Entertainment Company* (廣東樂的互動娛樂股份有限公司)	A private company principally engaging in the production and sales of toys in the PRC and owned by two individuals who are Independent Third Parties as at the Latest Practicable Date. Its business scope includes, among others, research and development of interactive entertainment software and research, development and sales of toys, kid bikes, infant products, electronic products, and it has a registered capital of RMB60.0 million	Merchandise licensing; Design consultation	2016	Upon issue of invoice by bank remittance	2.1	1.7
						34.8	28.1

FY2020

Rank	Customer	Background and principal activities	Business segment/product type involved	Business relationship commenced since	Typical credit term/ payment method	Revenue	% of total revenue
						HK$ million (Approximately)	*(%) (Approximately)*
1	Lixun Group Limited* (利訊集團有限公司)	A private company principally engaging in the manufacturing, distribution and retailing of apparels, footwear products and accessories in the PRC	Merchandise licensing; Design consultation	2017	Upon issue of invoice by bank remittance	28.4	12.2
2	Customer A	An online discount retailer for brands in China and a subsidiary of a public listed company whose shares are listed on the New York Stock Exchange	E-commerce and other business	2014	Upon issue of invoice by bank remittance	24.2	10.4
3	China Everbright Bank	A business unit of a PRC state-owned commercial bank whose shares are listed on the Stock Exchange and Shanghai Stock Exchange. It recorded operating income of approximately RMB142.7 billion for FY2020. As at 31 December 2020, it had net assets of approximately RMB455.0 billion	Content and media licensing; LBE licensing	2017	Upon issue of invoice by bank remittance	5.5	2.4
4	Shanghai Zhichao Brand Management Co., Ltd.* (上海至潮品牌管理有限公司)	A private company principally engaging in the operation and management of catering business in the PRC	LBE licensing; Design consultation	2020	Upon issue of invoice by bank remittance	3.9	1.7
5	Blackhorse Technology (Shanghai) Limited* (黑馬科技(上海)有限公司)	A private company principally engaging in the manufacturing and sale of thermos bottle and utensils	Merchandise licensing; design consultation	2016	Upon issue of invoice by bank remittance	3.3	1.4
						65.3	28.1

FY2019

Rank	Customer	Background and principal activities	Business segment/product type involved	Business relationship commenced since	Typical credit term/ payment method	Revenue	% of total revenue
						HK$ million (Approximately)	*(%) (Approximately)*
1	Lixun Group Limited* (利訊集團有限公司)	A private company principally engaging in the manufacturing, distribution and retailing of apparels, footwear products and accessories in the PRC	Merchandise licensing; Design consultation	2017	Upon issue of invoice by bank remittance	22.5	9.3
2	Customer A	An online discount retailer for brands in China and a subsidiary of a public listed company whose shares are listed on the New York Stock Exchange	E-commerce and other business	2014	Upon issue of invoice by bank remittance	20.1	8.3
3	China Everbright Bank	A business unit of a PRC state-owned commercial bank whose shares are listed on the Stock Exchange and Shanghai Stock Exchange. It recorded operating income of approximately RMB142.5 billion for FY2020. As at 31 December 2020, it had net assets of approximately RMB455.0 billion	Content and media licensing; LBE licensing	2017	Upon issue of invoice by bank remittance	6.7	2.8
4	Shenzhen Qianhai Shiweixian Food Co. Ltd.* (深圳前海食為先食品有限公司)	A private Chinese restaurant chain in the PRC	LBE licensing; Design consultation	2018	Upon issue of invoice by bank remittance	6.6	2.7
5	Customer B	A private company principally engaged in the operation of chain-style indoor amusement park in Hong Kong	E-commerce and other business	2008	30 days after issuing invoice by bank remittance	4.2	1.7
						60.1	24.8

FY2018

Rank	Customer	Background and principal activities	Business segment/product type involved	Business relationship commenced since	Typical credit term/ payment method	Revenue *HK$ million (Approximately)*	% of total revenue *(%) (Approximately)*
1	Lixun Group Limited* (利訊集團有限公司)	A private company principally engaging in the manufacturing, distribution and retailing of apparels, footwear products and accessories in the PRC	Merchandise licensing; Design consultation	2017	Upon issue of invoice by bank remittance	7.1	3.5
2	Customer A	An online discount retailer for brands in China and a subsidiary of a public listed company whose shares are listed on the New York Stock Exchange	E-commerce and other business	2014	Upon issue of invoice by bank remittance	6.7	3.3
3	Nanjing Overseas Chinese Town (南京華僑城實業發展有限公司)	A PRC state-owned tourism and property development group and a leading theme park operator. Its parent company is listed on Shenzhen Stock Exchange which recorded revenue of approximately RMB81.9 billion for FY2020. As at 31 December 2020, it had net assets of approximately RMB78.4 billion	LBE licensing: Design consultation	2018	Upon issue of invoice by bank remittance	6.7	3.3
4	Customer B	A private company principally engaged in the operation of chain-style indoor amusement park in Hong Kong	E-commerce and other business	2008	30 days after issuing invoice	4.3	2.2
5	China Everbright Bank	A business unit of a PRC state-owned commercial bank whose shares are listed on the Stock Exchange and Shanghai Stock Exchange. It recorded operating income of approximately RMB142.5 billion for FY2020. As at 31 December 2020, it had net assets of approximately RMB455.0 billion	Content and media licensing; LBE licensing	2017	Upon issue of invoice by bank remittance	4.0	2.0
						28.8	14.3

Our Directors confirm that all of our five largest customers during the Track Record Period were Independent Third Parties. None of our Directors, their respective close associates, or any of our current Shareholders who, to the best knowledge and belief of our Directors having made all reasonable enquiries, owns more than 5% of our share capital or of any of our subsidiaries, or has any interest in any of our five largest customers and none of our five largest customers have any past or present relationship with our Company, our subsidiaries, their shareholders, directors and senior management, or any of their respective close associates.

Seasonality

We typically experience higher sales for e-commerce and other business in the fourth quarter of each year, particularly during major e-commerce campaigns such as the Double-Eleven and "Double-12 Day". As to the character licensing business, we generally experience higher royalty income in the second half of each year.

BRAND MANAGEMENT AND MARKETING

We have formed an internal branding team in order to maintain and develop the IP rights of B.Duck Family Characters with a long-term perspective. Our Directors believe that strategic long-term planning is a way to achieve our vision of maintaining B.Duck Family Characters as one of the top character brands in the HK–China Market. Our branding team has several objectives such as managing of long-term character development and the guidance and direction on the use of B.Duck Family Characters. In addition, our branding team develops and manages the graphic look of B.Duck Family Characters which provides general guidelines on how to use B.Duck Family Characters IP rights and enables quick decision making for brand-related matters. Our branding team leads the overall, long-term brand development at the group level, and also promotes creative freedom in business units that are responsible for their own areas.

Besides, the most effective way to keep B.Duck Family Characters relevant in the market is to have continuous marketing and promotion programmes that increase awareness, consumers' interest and sales. Accordingly, we work closely with licensees and e-commerce platforms to promote our B.Duck Family Characters. These kinds of promotion can potentially enhance the awareness and market presence of our IP characters which in turn would improve the effectiveness of our licensees' promotional campaigns and sales of our merchandise. Our Directors also believe that these could add value to our characters and improve our performance with potential additional royalty received from licensees. Such activities include:

(i) *Organising launch events and opening pop-up stores for our new characters*. We rolled out new characters such as Buffy and B.Duck Baby by initiating intensive marketing campaigns and opening pop-up stores at popular destinations, through which the awareness of our new characters among the public was raised;

(ii) *Participating in promotional events and promoting our products on various e-commerce platforms.* We actively participate in promotion events held by various e-commerce platforms, such as the Double-Eleven and "618 Online Shopping Festival" on the major e-commerce platforms in China. We offer discount on our B.Duck Family Characters-featured products to attract our fans and boost our sales. We also design and customise graphical content which are displayed and/or imbedded in the e-commerce platforms to attract potential customers to purchase our products;

(iii) *Making use of digital media marketing.* We make use of various social media platforms such as Weibo, Facebook, Douyin, WeChat and Instagram. We constantly update these pages and accounts with the latest licensed products, promotional events, shopping mall events, charity programmes and other marketing activities which involve our Group's characters. These online platforms allow our Group to collect details of our fan base, such as age group, number of followers and locations of fans. Users of these online platforms may also share the posts to their friends, which can increase exposure of our Group's characters;

(iv) *Engaging KOLs, celebrities or ambassadors to promote our products, content and services.* We believe endorsement of our characters and products by KOLs, celebrities or ambassadors is an effective way of extending our reach to their fans;

(v) *Organising various marketing activities in collaboration with other parties.* We organise such activities to raise public awareness of our characters. We often cooperate with other parties, such as public organisations and licensees, to conduct these marketing activities. We have participated in organising different events such as fashion shows, charity and fund-raising activities, film festival and exhibitions in Hong Kong, the PRC and overseas. We believe that the popularity of our characters will be increased as we are able to introduce and promote our characters to various groups of people through different activities. Our business relies on the popularity and value of our brands. Furthermore, through the marketing and brand promotion activities, we believe that we will be aware of the changing market needs and able to provide feedback to the design team to update and create designs that suit customers' preferences. We will also be able to identify potential business opportunities for the licensing team to approach licensees who are interested in applying our characters to their products; and

(vi) *Hosting or sponsoring conferences, trade shows, exhibitions and workshops.* We held events during Ani-Com & Games Hong Kong in 2018 and we were benefited from receiving ticket revenue from our game booth and inflatable facilities and, more importantly, gaining media exposure to boost our brand recognition and awareness. We have participated in various types of exhibitions and tradeshow such as the Hong Kong International Licensing Show in 2020 and 2021, the Licensing Expo Shanghai 2020 and 2021, the HK Toy Festival 2019 as well as the 2019 Licensing Expo in Las Vegas organised by Licensing International for connecting worldwide entertainment, character, art and corporate brand owners and agents with consumer goods manufacturers, licensees and retailers. By participating in licensing shows, we can introduce our background and promote our image and services to potential licensees through well-established platforms and have the opportunity to connect and interact with other industry players and obtain the latest updates in the market.

HK Toy Festival 2019

Licensing Expo Shanghai 2020

OUR SUPPLIERS

During the Track Record Period, our suppliers primarily consist of (i) OEM suppliers which mainly manufacture apparel and bags; and (ii) licensees of our merchandise licensing business. We mainly procure apparel and bags from various OEM suppliers located in the PRC. We have maintained stable and close relationship with our suppliers. As at 30 June 2021, we had established business relationship with our major suppliers ranging from one to 12 years. To a lesser extent, we also procure finished products from the licensees of our merchandise licensing business and sell through our sales network.

Arrangement with our contractual manufacturers

Currently, our B.Duck Family Character-featured products are produced by selected OEM suppliers in China who specialise in the manufacturing of apparel and bags. We have maintained good relationship with our OEM suppliers. We normally do not enter into long-term agreements with our OEM suppliers and we place order when and as necessary.

As at the Latest Practicable Date, we had not encountered and we had not experienced, and do not expect to experience, any material difficulties in obtaining the outsourced products we required.

Principal terms of the agreements with the major suppliers

The principal terms of our agreement entered into with our major suppliers during the Track Record Period are summarised as follows:

Manufacturing : We engage the OEM suppliers to provide us with the products in accordance with the requirements specified in our purchase order and the prototype provided.

Raw Materials : The OEM suppliers shall be responsible for the purchase of raw materials as specified by us and shall meet the applicable laws, regulations and national and industry standards.

Product Quality	:	The products delivered by the OEM suppliers shall be the same as the prototype provided. We shall be entitled to return any defective products to the OEM suppliers and the OEM suppliers shall be responsible for all the related costs incurred in respect of the product return, including but not limited to, courier expenses, storage expenses and amounts arising from the claims by our customers etc.
Delivery	:	The OEM suppliers shall deliver the products to a specified location and the courier expenses shall be borne by the OEM suppliers.
Term	:	The terms of our agreements with the OEM suppliers are generally for one year.
Liability	:	The OEM suppliers are liable for any penalties and damages arising from product defects.
Termination	:	The agreement can be terminated upon mutual consent.

Selection and evaluation criteria of suppliers

We carefully select our OEM suppliers and require them to satisfy certain criteria. Before we engage a new OEM supplier, we would evaluate the supplier based on various factors including production capability, location, qualifications, price, reputation, and ability to meet our specifications. Besides, we periodically review the performance of our existing OEM suppliers on an annual basis and evaluate the necessity and benefit of engaging additional OEM suppliers to manufacture our products. Our evaluation criteria include manufacturing facilities, quality control, on-time delivery rate, differences between proposed and final prices, pass rate of inspection and rate of product defects. As at the Latest Practicable Date, we have cooperated with more than 100 OEM suppliers which we believe can satisfy the demand for our products.

Our production procurement team and the external quality control and assurance experts work closely with our OEM suppliers during the production process and conducts quality checks to ensure that the products are manufactured in accordance with our specification and in compliance of our quality control standards. See "Our E-commerce and other business —Quality Control" in this section for more details.

Our Five Largest Suppliers

During the Track Record Period, the aggregate purchase cost attributable to our five largest suppliers were approximately HK$53.1 million, HK$61.0 million, HK$39.6 million and HK$30.1 million, which accounted for 97.8%, 79.6%, 73.9% and 75.5% of our total purchase cost, respectively. For the same periods, the purchase amounts from our largest supplier were approximately HK$50.8 million, HK$51.0 million, HK$26.4 million and HK$20.6 million, which accounted for 93.4%, 66.5%, 49.3% and 51.6% of our total purchase cost, respectively. Up to the Latest Practicable Date, we had established business relationship ranging from one to 12 years with our five largest suppliers.

The table below set out purchase amount attributable to our five largest suppliers during the Track Record Period:

6M2021

Rank	Supplier	Background and principal activities	Business segment involved	Business relationship commenced since	Typical credit term/ payment method	Purchase amount *HK$ million (Approximately)*	% of total purchase amount *(%) (Approximately)*
1	ENS Toys	A private company principally engaging in manufacturing business and holding manufacturing facilities located in the PRC and an OEM supplier of our Group. It was ultimately owned by Mr. Hui as at the Latest Practicable Date. Its business scope includes, among others, production of electronic products, apparel and accessories, plastic toys, crafts, toys, cloth-made office supplies and daily necessities, and it has a registered capital of USD2.0 million	E-commerce and other business	2009	60 days after issue of invoice by bank remittance	20.6	51.6
2	Supplier J	A private company principally engaging in the production and sales of teenage and kids apparel in the PRC and an OEM supplier of our Group. It was owned by an individual who is an Independent Third Party as at the Latest Practicable Date. Its business scope includes, among others, product, sales and processing of textile, fabric, woven fabric, garment accessories and apparel and product import and export, and it has a registered capital of RMB1.0 million	E-commerce and other business	2020	Upon issue of invoice by bank remittance	2.9	7.2

Rank	Supplier	Background and principal activities	Business segment involved	Business relationship commenced since	Typical credit term/ payment method	Purchase amount *HK$ million* *(Approximately)*	% of total purchase amount *(%)* *(Approximately)*
3	Supplier L	A private company principally engaging in the development and production of apparel in the PRC and an OEM supplier of our Group. It was owned by an individual who is an Independent Third Party as at the Latest Practicable Date. Its business scope includes, among others, production and sales of apparel, handbags, leather products, packaging products, plush toys, car supplies and baby products, and it has a registered capital of RMB0.5 million	E-commerce and other business	2020	Upon issue of invoice by bank remittance	2.8	7.1
4	Supplier F	A private company principally engaging in the production and sales of apparel in the PRC and an OEM supplier of our Group. It was owned by an individual who is an Independent Third Party as at the Latest Practicable Date. Its business scope includes, among others, wholesale and retail sales of shoes and hats, wholesale and retail sales of apparel, sales of luggage and bags and online sales, and it has a registered capital of RMB1.0 million	E-commerce and other business	2019	Upon issue of invoice by bank remittance	2.0	4.9
5	Supplier K	A private company principally engaging in the production and sales of denim apparel in the PRC and an OEM supplier of our Group. It was owned by an individual who is an Independent Third Party as at the Latest Practicable Date. Its business scope includes, among others, production of machine-made apparel, production of knitted or crocheted apparel, production of hats and production of apparel, and it has a registered capital of RMB1.0 million	E-commerce and other business	2019	Upon issue of invoice by bank remittance	1.8	4.7
						30.1	75.5

FY2020

Rank	Supplier	Background and principal activities	Business segment involved	Business relationship commenced since	Typical credit term/ payment method	Purchase amount *HK$ million (Approximately)*	% of total purchase amount *(%) (Approximately)*
1	ENS Toys	A private company principally engaging in manufacturing business and holding manufacturing facilities located in the PRC and an OEM supplier of our Group. It was ultimately owned by Mr. Hui as at the Latest Practicable Date. Its business scope includes, among others, production of electronic products, apparel and accessories, plastic toys, crafts, toys, cloth-made office supplies and daily necessities, and it has a registered capital of USD2.0 million	E-commerce and other business	2009	60 days after issue of invoice by bank remittance	26.4	49.3
2	Supplier F	A private company principally engaging in the production and sales of apparel in the PRC and an OEM supplier of our Group. It was owned by an individual who is an Independent Third Party as at the Latest Practicable Date. Its business scope includes, among others, wholesale and retail sales of shoes and hats, wholesale and retail sales of apparel, sales of luggage and bags and online sales, and it has a registered capital of RMB1.0 million	E-commerce and other business	2019	Upon issue of invoice by bank remittance	6.4	11.9
3	Guangdong Lede Interactive Entertainment Company* (廣東樂的互動娛樂股份有限公司)	A private company principally engaging in the production and sales of toys in the PRC and a licensee of our Group. It was owned by two individuals who are Independent Third Parties as at the Latest Practicable Date. Its business scope includes, among others, research and development of interactive entertainment software and research, development and sales of toys, kid bikes, infant products, electronic products, and it has a registered capital of RMB60.0 million	E-commerce and other business	2018	Upon issue of invoice by bank remittance	2.6	4.8

Rank	Supplier	Background and principal activities	Business segment involved	Business relationship commenced since	Typical credit term/ payment method	Purchase amount *HK$ million (Approximately)*	% of total purchase amount *(%) (Approximately)*
4	Supplier J	A private company principally engaging in the production and sales of teenage and kids apparel in the PRC and an OEM supplier of our Group. It was owned by an individual who is an Independent Third Party as at the Latest Practicable Date. Its business scope includes, among others, product, sales and processing of textile, fabric, woven fabric, garment accessories and apparel and product import and export, and it has a registered capital of RMB1.0 million	E-commerce and other business	2020	Upon issue of invoice by bank remittance	2.3	4.3
5	Supplier K	A private company principally engaging in the production and sales of denim apparel in the PRC and an OEM supplier of our Group. It was owned by an individual who is an Independent Third Party as at the Latest Practicable Date. Its business scope includes, among others, production of machine-made apparel, production of knitted or crocheted apparel, production of hats and production of apparel, and it has a registered capital of RMB1.0 million	E-commerce and other business	2019	Upon issue of invoice by bank remittance	1.9	3.6
						39.6	73.9

FY2019

Rank	Supplier	Background and principal activities	Business segment involved	Business relationship commenced since	Typical credit term/ payment method	Purchase amount *HK$ million (Approximately)*	% of total purchase amount *(%) (Approximately)*
1	ENS Toys	A private company principally engaging in manufacturing business and holding manufacturing facilities located in the PRC and an OEM supplier of our Group. It was ultimately owned by Mr. Hui as at the Latest Practicable Date. Its business scope includes, among others, production of electronic products, apparel and accessories, plastic toys, crafts, toys, cloth-made office supplies and daily necessities, and it has a registered capital of USD2.0 million	E-commerce and other business	2009	60 days after issue of invoice by bank remittance	51.0	66.5
2	Supplier E	A private company principally engaging in the production and sales of female apparel in the PRC and an OEM supplier of our Group. It was owned by an individual who is an Independent Third Party as at the Latest Practicable Date. Its business scope includes, among others, wholesale and retail sales of apparel, fabrics, shoes, luggage, bags and leather goods, and it has a registered capital of RMB1.0 million	E-commerce and other business	2019	Upon issue of invoice by bank remittance	3.8	4.9
3	Supplier F	A private company principally engaging in the production and sales of apparel in the PRC and an OEM supplier of our Group. It was owned by an individual who is an Independent Third Party as at the Latest Practicable Date. Its business scope includes, among others, wholesale and retail sales of shoes and hats, wholesale and retail sales of apparel, sales of luggage and bags and online sales, and it has a registered capital of RMB1.0 million	E-commerce and other business	2019	Upon issue of invoice by bank remittance	2.5	3.3

Rank	Supplier	Background and principal activities	Business segment involved	Business relationship commenced since	Typical credit term/ payment method	Purchase amount *HK$ million (Approximately)*	% of total purchase amount *(%) (Approximately)*
4	Guangdong Aoweila Luggage Limited* (廣東奧維拉箱包有限公司)	A private company principally engaging in the production and sales of luggage and bags in the PRC and a licensee of our Group. It was owned by three individuals who are Independent Third Parties as at the Latest Practicable Date. Its business scope includes, among others, production of leather goods, leather tanning, production and sales of luggage and bags, processing of further products and fur tanning, and it has a registered capital of RMB8.0 million	E-commerce and other business	2019	Upon issue of invoice by bank remittance	1.9	2.5
5	Supplier H	A private company principally engaging in the production and sales of female apparel in the PRC and an OEM supplier of our Group. It was owned by two individuals who are Independent Third Parties as at the Latest Practicable Date. Its business scope includes, among others, production and processing of apparel and online sales of apparel, shoes, hat, textile and houseware, and it has a registered capital of RMB1.0 million	E-commerce and other business	2019	Upon issue of invoice by bank remittance	1.8	2.4
						61.0	79.6

FY2018

Rank	Supplier	Background and principal activities	Business segment involved	Business relationship commenced since	Typical credit term/ payment method	Purchase amount *HK$ million (Approximately)*	% of total purchase amount *(%) (Approximately)*
1	ENS Toys	A private company principally engaging in manufacturing business and holding manufacturing facilities located in the PRC and an OEM supplier of our Group. It was ultimately owned by Mr. Hui as at the Latest Practicable Date. Its business scope includes, among others, production of electronic products, apparel and accessories, plastic toys, crafts, toys, cloth-made office supplies and daily necessities, and it has a registered capital of USD2.0 million	E-commerce and other business	2009	60 days after issue of invoice by bank remittance	50.8	93.4
2	Supplier A	A private company principally engaging in the production and sales of female apparel in the PRC and a licensee of our Group. It was owned by two individuals who are Independent Third Parties as at the Latest Practicable Date. Its business scope includes, among others, online sales, wholesale and retail sales of apparel, shoes and hats, and it has a registered capital of RMB1.0 million	E-commerce and other business	2018	Upon issue of invoice by bank remittance	1.2	2.3

Rank	Supplier	Background and principal activities	Business segment involved	Business relationship commenced since	Typical credit term/ payment method	Purchase amount *HK$ million (Approximately)*	% of total purchase amount *(%) (Approximately)*
3	Shenzhen Sanli Technology Limited* (深圳市叁立科技有限責任公司)	A private company principally engaging in the production and sales of consumer electronic products in the PRC and a licensee of our Group. It was owned by an individual who is an Independent Third Party as at the Latest Practicable Date. Its business scope includes, among others, development, consulting and sales of electronic products, digital products and communication products and equipment, power bank and computer hardware, and it has a registered capital of RMB2.0 million	E-commerce and other business	2018	Upon issue of invoice by bank remittance	0.6	1.2
4	膳魔師(中國)家庭制品有限公司* (Thermos (China) Housewares Company Limited)	A private company principally engaging in the production and sales of thermos and cooking utensil in the PRC and a licensee of our Group. It was owned by two companies who are Independent Third Parties as at the Latest Practicable Date. Its business scope includes, among others, production, research and development of energy saving vacuum stew pot, insulated container, household products and kitchenware, and it has a registered capital of USD16.1 million	E-commerce and other business	2018	Upon issue of invoice by bank remittance	0.3	0.5

Rank	Supplier	Background and principal activities	Business segment involved	Business relationship commenced since	Typical credit term/ payment method	Purchase amount	% of total purchase amount
						HK$ million *(Approximately)*	*(%)* *(Approximately)*
5	深圳市洛斐客文化有限公司* (Shenzhen City Lofree Culture Company Limited)	A private company principally engaging in the production and sales of consumer electronic products in the PRC and a licensee of our Group. It was owned by two individuals who are Independent Third Parties as at the Latest Practicable Date. Its business scope includes, among others, sales of mechanical equipment, hardware products and electronic communication equipment, and it has a registered capital of RMB1.0 million	E-commerce and other business	2018	Upon issue of invoice by bank remittance	0.2	0.4
						53.1	97.8

ENS Toys, one of our top five suppliers during the Track Record Period, is wholly-owned by Mr. Hui, our executive Director, chairman, chief executive officer and Controlling Shareholder, and therefore it is considered as a connected person of our Group under Rule 14.12(1)(c) of the Listing Rules. See "Connected Transaction" in this Prospectus for more details.

Save as disclosed above, none of our Directors, their respective close associates, or any of our current Shareholders who, to the best knowledge of our Directors having made all reasonable enquiries, owns more than 5% of our share capital or of any of our subsidiaries, or has any interest in any of our five largest suppliers and none of our five largest suppliers have any past or present relationship with our Company, our subsidiaries, their shareholders, directors and senior management, or any of their respective close associates.

OVERLAPPING OF CUSTOMERS AND SUPPLIERS

For each of FY2018, FY2019, FY2020 and 6M2021, there were 10, 19, 31 and 35 overlapping customers and suppliers, respectively. To the best knowledge and belief of our Directors, these entities and their respective ultimate beneficial owners are Independent Third Parties.

Our licensing fee from these customers amounted to approximately HK$3.0 million, HK$28.4 million, HK$46.7 million and HK$17.5 million, which accounted for approximately 1.5%, 11.7%, 20.0% and 14.1% of our total revenue for FY2018, FY2019, FY2020 and 6M2021, respectively. During the corresponding period, our purchase amount attributable to these customers amounted to approximately HK$2.5 million, HK$5.6 million, HK$7.0 million and HK$4.9 million, which accounted for approximately 4.6%, 7.3%, 13.1% and 12.3% of our total purchase amount, respectively.

Our Directors consider that, in view of the fact that (i) some of our licensees are specialised in certain types of merchandise which they have the relevant expertise and enjoy economies of scale in the production and/or sales of such types of merchandise; (ii) the purchase of the merchandise developed by our licensees would supplement and diversify our product offerings for our e-commerce and other business which may enhance the shopping experience of our customers and attract more potential customers; (iii) the procurement of merchandise from our licensees would allow us greater operational flexibility as we could negotiate with our licensees on the purchase quantity as compared to obliging the minimum order quantity imposed by certain OEM manufacturers; and (iv) more resources could be instead allocated by us to develop more merchandise, we had occasionally procured from our licensees the finished B.Duck Family Characters-featured merchandise developed by them, such as consumer electronics, car accessories and travelling items etc, which are subsequently sold by us through our online and offline sales channels.

Negotiation of terms of the licensing arrangement and our purchases from these overlapping customers and suppliers were conducted on individual basis. Our Directors consider, and the Sole Sponsor concurs that during the Track Record Period, our Group's transactions with these overlapping customers and suppliers were conducted on arm's length basis and on normal commercial terms.

RELATIONSHIP WITH ENS TOYS

Our largest supplier, ENS Toys, is principally engaged in manufacturing business in the PRC and is indirectly wholly-owned by Mr. Hui, our executive Director, chairman, chief executive officer and Controlling Shareholder. During the Track Record Period, our Group purchased merchandise, including but not limited to apparel and toys, from ENS Toys. Our Group has established relationship with ENS Toys for more than 12 years. Our Directors consider that our Group does not rely on ENS Toys due to the following reasons:

(i) our Group's purchase amount attributable to ENS Toys has been decreased from approximately HK$50.8 million for FY2018 to approximately HK$26.4 million for FY2020, representing a decrease of approximately 48.0%;

(ii) the percentage of purchase attributable to ENS Toys to total purchase amount has been decreased from approximately 93.4% for FY2018 to approximately 49.3% for FY2020;

(iii) ENS Toys not only supplied products to our Group but also to other Independent Third Parties including promotional marketing agency, business process outsourcing provider, supply chain solution provider and biotech company etc, during the Track Record Period. Our Group's purchase accounted for approximately 70.6%, 63.2% and 38.9% of ENS Toys' total revenue from FY2018 to FY2020. Our Directors were advised that the increase in the purchase from independent customers (other than our Group) of ENS Toys in FY2019 and FY2020 was primarily due to the change in their business focus to diversify their customers base and acquire more overseas customers in FY2019 and FY2020;

(iv) we have established business relationship with our other major suppliers for one to three years and we have cooperated with more than 100 OEM suppliers as at the Latest Practicable Date; and

(v) save as the transactions disclosed in "Connected Transaction" and the related parties transactions as set forth in note 29 to the Accountants' Report as set out in Appendix I to this Prospectus, there has not been and will not be any sharing of resources between our Group and ENS Toys during Track Record Period and going forward and there has not been any expenses or costs of our Group for the Track Record Period which were borne by ENS Toys or other entities held by the Shareholders, Directors or senior management of our Company or our subsidiaries, without recharging to our Group or vice versa.

Based on the aforesaid reasons, our Directors consider that our Group is not reliant on ENS Toys and it is expected that our Group will continue to engage ENS Toys as one of our key suppliers. We have entered into a merchandise supply framework agreement with ENS Toys. See "Connected Transaction — Non-exempt continuing connected transactions" in this Prospectus for details. Our Directors also believe that there are many alternative suppliers available in the market which can supply products at comparable market prices and qualities and that our Group should not have any difficulty in purchasing from alternative suppliers.

Data Protection and Privacy

As one of our Group's core business strategies, we plan to establish a brand-new fans platform and we expect the operation of which would involve the collection of certain personal information of our customers in compliance with the applicable laws and regulations. The relevant information may include name, email, mobile number and other information relation to the details of purchase etc. As a result, in anticipation of the adoption of such business strategy, we are prepared to adopt policies and measures in respect of the collection of personal data and privacy protection and we plan to make available the same to the users of our fans platform. We will not use the relevant information and data for any purpose that has not been consented to by our customers or is not necessary for the provision of services to the customers.

- **Data storage and transmission:** In respect of the personal information and infrastructural data collected on our fans platform, we intend to store them in-house and within the territory of the PRC. In order to ensure those information and data are secured and protected, we also plan to contract with a data security solutions provider to provide the necessary support services for storing the data. Unless otherwise specified by the applicable laws and regulations, all relevant information and data collected would be deleted after the relevant authorised usage. We will use the relevant information and data based on our customers' consent and our customers would have the right to withdraw their consent in respect of the collection of the personal information and data. The withdrawal of consent shall not affect the previous use of personal information and data which are based on the consent obtained prior to such withdrawal. We currently do not have any data sharing arrangement with any external parties and we do not intend to conduct any cross-border data transmission upon the establishment of the fans platform.

- **Use of encryption technologies:** We intend to adopt various technologies to protect the data which we collect from our fans platform and engage a data security solutions provider to conduct ongoing review and monitor of data security practices. We will store all personal data of our customers in encrypted format and utilise firewalls to protect against potential cybersecurity attacks or unauthorised access. In addition, when using personal information, we also plan to de-sensitise certain personal identifiable information and use the user ID for identification and data management.

- **Access of personal data by employees:** We plan to maintain strict control over access to personal data with strict assessment and approval procedures. Such data and information can only be accessed by our designated employees on a need-to-know basis. Furthermore, we will enter into confidentiality agreements with our employees who will have access to the relevant data and information. Such confidentiality agreement will stipulate that those employees are legally obligated not to disclose or otherwise misappropriate confidential data and information obtained due to their employment. We also plan to organise security and privacy protection training courses from time to time to strengthen our employees' awareness of the importance of personal data protection.

- **Access of personal data by business partners:** We intend to collect and use personal data for the purpose as authorised and consented by our customers and as otherwise as may be required by applicable laws and regulations. Without due consent and authorisation from our customers, we do not intend to share with, transfer or disclose personal data to any third party or business partners except for certain limited circumstances, including when it is expressly authorised by our customers, necessary to fulfil our main services to our customers, or in compliance with the applicable laws and regulations. Even in the event that we share our customers' data with third-parties or our business partners, we will impose a confidentiality obligations on our business partners to the effect that they are legally obligated not to disclose or misappropriate confidential data and information in order to ensure that those data are adequately protected.

LOGISTICS AND INVENTORY MANAGEMENT SYSTEM

Warehouse

For our e-commerce and other business, we had three self-operated warehouses in Hong Kong and in the PRC with a total gross floor area of approximately 766.9 sq.m. and we engage two warehousing services providers in the PRC as at the Latest Practicable Date.

Our self-operated warehouses are equipped with inventory management system which enables the warehouse to record the real time movement of our products. We also installed surveillance cameras covering our self-operated warehouses.

Moreover, we engage third-party warehousing services providers in Shenzhen to provide storage, inventory management, loading and unloading services which charges based on our actual usage. Pursuant to the agreement with such warehousing services providers, they shall follow our instructions and be responsible for loading, unloading and regularly conducting stocktaking and checking the conditions of our inventories. Our warehousing services providers shall indemnify us for any losses incurred as a result of its breach of obligations under the agreements.

Transportation and Logistics

We engage third-party logistics service providers to collect our products from warehouses and deliver them to our customers. As at 30 June 2021, we had three warehousing and logistics service providers. We believe that by engaging third-party logistics service providers to provide logistics service, we can focus on our core strengthen in creation, design and marketing of our IP characters and related merchandise and maintain a low level of capital investment in developing and maintain an in-house logistics system.

We select our logistics service providers based on a range of criteria including their location, scale of operation, reputation, track record and price. The term for our agreements with the logistics service providers is generally for one to two years. Our logistics service providers generally bear the risks associated with the delivery of our products and are liable for product contamination occurring during the transportation process. We assess our logistic service providers based on service fee, delivery performance and overall service quality. During the Track Record Period and up to the Latest Practicable Date, save as disclosed in "Business — Impact of outbreak of COVID-19 on our business" in this Prospectus, we had not experienced any material disruption in the delivery of our products or suffered any loss due to late delivery or mishandling of products by our logistics service providers.

Inventory Management

During the Track Record Period, all of our inventories were finished products and they were primarily stored at our self-operated warehouses and third-party warehouses operated by our warehousing services providers. We are required to maintain sufficient level of inventories to meet our fans' demands. As at 31 December 2018, 2019 and 2020, and 30 June 2021, the balance of inventories amount to approximately HK$21.8 million, HK$22.8 million, HK$21.4 million and HK$33.8 million, respectively, representing approximately 23.0%, 20.3%, 12.6% and 22.1%, respectively, of our total current assets. Our average number of inventory turnover days for FY2018, FY2019, FY2020, and 6M2021 were 157 days, 108 days, 147 days and 181 days, respectively.

Our warehouses are equipped with inventory management system to produce real time information of our inventories. Each product is linked to the inventory management system. Through this system, we can closely monitor inventory levels of both excess inventory and products in high demand. Our procurement team will place orders based on historical sales, future projections and the inventory level in our storage.

AWARDS AND ACCREDITATION

We have received recognition for the quality and popularity of our products and services. The following table sets out the major awards and accreditation received by our Group and our character IP rights in the past five years:

Year	Award/accreditation	Issuing authority/institution
2021	China Property of the Year	Licensing International
2021	Licensed Promotion of the Year	Licensing International
2020	Best Retailer Top 10	Organising Committee of China IP Industry Conference
2020	Most Commercially Valuable Cultural Tourism Mascot 2020	Organising Committee of China IP Industry Conference
2016, 2018, 2019 & 2020	Asian Property of the Year	Licensing International
2018–2020	Best Licensing Team Award Top 10	Organising Committee of China IP Industry Conference
2020	HMS – Best Content Partner* (華為終端雲服務－最佳內容合作伙伴)	Huawei
2019	O2O Leading Road Model Award* (O2O領先典範大獎)	Hong Kong O2O E-commerce Federation
2016–2019	Most Valuable Cartoon & Animation IP Top 10	Organising Committee of China IP Industry Conference
2018	D-Awards 2018	Federation of Hong Kong Industries
2018	The 13th New Employer Brand Conference — Best China Employer	New Employer Brand Conference
2018	Best Emoticon Award	Organising Committee of China IP Industry Conference
2018	The Best Online Brand Awards	Hong Kong Netrepreneurs Association

Year	Award/accreditation	Issuing authority/institution
2018	Hong Kong Toy Awards 2018 — The Best IP Character	am730 x Mameshare
2016	Hong Kong Premier Brand	The Chinese Manufacturers Association of Hong Kong and Hong Kong Brand Development Council

INFORMATION TECHNOLOGY

We believe establishing and maintaining a reliable and up-to-date technology infrastructure is critical to the operation of our business.

An efficient and effective management system requires the support of a centralised and integrated management information system. We are committed to developing our information technology capabilities to support our business expansion and enhance our internal control. We believe the use of our information technology systems would facilitate our planning and management of licensees, licensing agents, style guides, product application, budgeting, human resources and financial reporting. Furthermore, our information system enables us to efficiently retrieve and analyse our operational data and information including procurement, sales, inventory and logistics data of our e-commerce and other business on a real time basis. Our systems are protected by up-to-date anti-virus software, firewall and regular back-ups which are carried out by our information technology team.

We have implemented, among other things, the following information technology systems for our business operations:

- financial control management system which our employees of various departments such as design, sales and finance would input their time spent on each project for human resources and cost analysis;

- document and image management systems which serve as our database for all documents, images and information relating to our projects; and

- client relationship management system which records the information of our contracts and clients.

As to ensuring the use of our computer system by our employees is in line with our internal control policies, we have adopted a series of measures, including but not limited to, (i) requiring passwords for installation of any third party software; (ii) requiring our employees to obtain prior approval for installation of any third party software; and (iii) conducting regular sample checks on our computers to ensure that no unnecessary or unauthorised software is installed.

Furthermore, as part of our core business strategies and future plans to develop our "Fans Platform", which involves the setting up and operation of our own platform in the form of Wechat Mini Programme, the analysis of big data and the utilisation of blockchain technologies, we plan to commission third party developer to develop such platform and the relevant system tailored for our business, assist us in the operation and utilisation of such platform and relevant technology and to equip our employees with the requisite technique and knowledge in respect of the operation. Our Group shall also, from time to time, review the needs of adopting more advance technologies and take appropriate measures as and when appropriate.

As confirmed by our Directors, there had not been any unexpected system or network failure which caused material disruption to our operations during the Track Record Period.

LICENCES, PERMITS AND APPROVALS

In relation to the use of licensed characters owned by third-parties, our Group is required to obtain from licensors the licensing rights to use such licensed characters. See "Our Characters — (B) Licensed Characters for the Track Record Period" above for further details about our Licensed Characters.

Our Directors confirm that we have obtained all licences or permits and approval that are material for our business operations, and such licences or permits and approval were valid and remained in effect as at the Latest Practicable Date.

EMPLOYEES

As at 31 December 2018, 2019 and 2020, and 30 June 2021, our Group had 196, 200, 184 and 206 full-time employees, respectively. The following table sets forth a breakdown of our employees by function and by geographical location as at 30 June 2021:

No. of employees by function	Hong Kong	PRC	Total
Management	2	1	3
Design	30	43	73
Licensing	6	22	28
Sales	4	30	34
Branding	2	19	21
Human resources and administration	4	19	23
Finance	7	9	16
Merchandise management	1	7	8
Total	56	150	206

We recruit our employees based on a number of factors such as their relevant work experience, educational background, language ability and our vacancies. We do not use employment agents in recruiting our employees. We provide training to certain employees to strengthen staff commitment and enhance their skills and technical knowledge at work.

We had not established any labour union. Having maintained good working relationships with our staff, our Directors confirm that during the Track Record Period, our Group had not encountered or experienced any material industrial disputes with any of our employees, which would have materially affected our business operations and financial performance.

The performance bonus was determined with reference to the duties and responsibilities of the relevant individual within our Group.

HEALTH, SAFETY AND OCCUPATIONAL HEALTH AND SAFETY

We place emphasis on the health and safety of our employees in our operation. We provide our employees with guidance from time to time on work safety to ensure that all our employees are kept abreast of our safety procedures and policies.

During the Track Record Period and up to the Latest Practicable Date, none of our employees had been involved in any major accident in the course of their employment with us and our Group had complied with applicable health and safety laws and regulations in all material aspects.

INSURANCE

We have obtained the mandatory insurance policies, such as employees' compensation insurance for our employees. During the Track Record Period, our total insurance expense amounted to approximately HK$0.5 million, HK$0.5 million, HK$0.5 million and HK$0.2 million. During the Track Record Period and up to the Latest Practicable Date, we did not make any material claim under any of our insurance policies. Our Directors believe that our insurance coverage is sufficient and adequate for our operations and in line with industry practice. As at the Latest Practicable Date, we had not made, nor been the subject of, any material insurance claim.

In addition, we are subject to the PRC's social insurance system and are required to make contributions for our PRC employees to five categories of insurance, including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. We primarily maintain medical insurance and employees' compensation insurance for our employees in Hong Kong.

ENVIRONMENTAL PROTECTION

Governance

We acknowledge our responsibilities on environmental protection, social responsibilities and are aware of the climate-related issues that may have impact on our Group's business operation. We are committed to comply with environmental, social and governance ("**ESG**") reporting requirements upon Listing. We have established an ESG policy (the "**ESG Policy**") in accordance with the standards of Appendix 27 to the Listing Rules, which outlined, among others, (i) the appropriate risk governance on ESG matters, including climate-related risks and opportunities; (ii) ESG strategy formation procedures; (iii) ESG risk management and monitoring; (iv) the identification of key performance indicators ("**KPIs**"); and (v) the relevant measurements and mitigating measures.

Our ESG Policy also sets out the respective responsibility and authority of different parties in managing the ESG matters. Our Board has an overall responsibility for overseeing and determining our Group's environmental, social, and climate-related risks and opportunities impacting our Group, establishing and adopting the ESG Policy and targets of our Group, and reviewing our Group's performance annually against the ESG targets and revising the ESG strategies as appropriate if significant variance from the target is identified.

Our Board has established an ESG working group that comprises four members, including our chief financial officer, human resources director, human resources manager, and senior compliance manager. The ESG working group serves as a supportive role to our Board in implementing the agreed ESG Policy, targets and strategies; conducting materiality assessments of environmental-related, climate-related, social-related risks and assess how our Group adapts its business in light of climate change; collecting ESG data from different parties while preparing for the ESG report; and continuously monitoring of the implementation of measures to address our Group's ESG-related risks. The ESG working group has to report to our Board on a semi-annual basis on the ESG performance of our Group and the effectiveness of the ESG systems.

Potential impacts of ESG-related risks

As a character IP company, our Group does not involve in any manufacturing activities or construction projects, and thus no material generation of emissions and wastes. We are however subject to various laws and regulations in Hong Kong and the PRC, mainly in relation to social matters. For further details on the relevant laws and regulations, please refer to "Regulatory Overview — Hong Kong Laws and Regulations", "Regulatory Overview — PRC Laws and Regulations — (B) Intellectual Property Rights", "Regulatory Overview — PRC Laws and Regulations — (C) Labour Protection in the PRC", and "Regulatory Overview — PRC Laws and Regulations — (D) Regulations Relating to E-Commerce" in this Prospectus.

During the Track Record Period and up to the Latest Practicable Date, we have not received any fines or penalties associated with the breach of any environmental laws or regulations. To the best knowledge and belief of our Directors, we are not subject to material environmental liability risk and will not incur material compliance costs in the future.

To promote sustainable development, our Group has identified potential physical risks and transition risks from climate change. Acute physical risk can arise from extreme weather conditions such as storms and flooding which may have potential financial implications for our Group. In the event of these extreme weather conditions, there could be financial losses due to direct damage of assets and disruption of operations, or we may experience indirect impacts from supply chain disruption if our suppliers suffer from such extreme weather conditions. Meanwhile, sustained elevated temperature resulting from chronic physical risk may increase the electricity consumption and thus the operating expenditure. Also, our Group adopts an array of measures in managing our energy consumption, for details please refer to "Metrics and targets" below. Upon evaluation, it is concluded that our Group's exposure to these potential risks is relatively low.

Potential transition risk may result from the transitioning to a lower-carbon economy which entails change in climate-related regulations and policy, and reputational risk. Currently, the National Development and Reform Commission and the Ministry of Ecology and Environment have jointly issued the Opinions on Further Strengthening the Cleanup of Plastic Pollution, laying out a five-year roadmap to restrict the use, production and sale of plastic products such as packaging bags and straws by 2020, 2022, and 2025, respectively. Our Group will work with the suppliers to comply with such regulations as and when the same are in place and we will monitor the scope so that we could ensure our works meet the demands and expectations of the regulators and our end-customers.

Set forth below is a summary of the climate-related risks our Group identified over the short, medium and long term.

	Risks	**Potential Impacts**
Short term (current annual reporting period)	• Extreme weather conditions such as flooding and storms • Sustained elevated temperature	• Reduced revenue from damage to assets, disruption to third-party logistic providers or third-party manufacturers
Medium term (one to three years)		• Increased operating expenses
Long term (four to ten years)	• Change in climate-related regulations • Shifts in customer preferences	• Increased cost of inventories sold due to policy changes • Reduced demand for goods and services

Strategies in addressing ESG-related risks

Our Group will conduct enterprise risk assessment at least once a year to cover the current and potential risks faced by our Group, including, but not limited to the risks arising from the ESG aspects and strategic risk around disruptive forces such as climate change. Our Board will assess or engage external expert to evaluate the risks and review our Group's existing strategy, target and internal controls, and necessary improvement will be implemented to mitigate the risks. Our Board, Audit Committee and the ESG working group will maintain oversight of our Group's approach to risk management, including climate-related risks and risks are monitored as part of the standard operating processes to ensure the appropriate mitigations are in place as part of the regular management reviews.

The decision to mitigate, transfer, accept or control a risk is influenced by various factors such as government regulation, transportation network and public perception. Our Group will incorporate climate-related issues, including physical and transition risk analysis, into our risk assessment processes and risk appetite setting. If the risk and opportunities are considered to be material, our Group will make reference to them in the course of the strategy and financial planning process. Upon annual review of the environmental, social and climate-related risks, and our Group's performance in addressing the risks, we may revise and adjust the ESG strategies as appropriate.

Metrics and targets

Our Board will set targets for each material KPIs at the beginning of each financial year in accordance with the disclosure requirements of Appendix 27 to the Listing Rules and other relevant rules and regulations upon Listing. The relevant targets on material KPIs will be reviewed on an annual basis to ensure that they remain appropriate to the needs of our Group. In setting targets for the KPIs, our Group has taken into account their respective historical levels for FY2018 to FY2020, and has considered our future business expansion in a thorough and prudent manner with a view of balancing business growth and environmental protection to achieve sustainable development.

During FY2018 to FY2020 and 6M2021, our greenhouse gas ("**GHG**") emissions was approximately 0.00092 tonnes, 0.00072 tonnes, 0.00088 tonnes and 0.00078 tonnes of carbon dioxide ("**CO_2**") equivalent per thousand dollars of revenue, respectively. Our GHG emissions result principally from scope 1 direct GHG emission results from burning of fuels in vehicles, and scope 2 indirect GHG emission results from purchased electricity. We do not involve in material emissions due to our business nature and also, we engage third-party logistics service providers in transporting our products to our customers. Our Group will make continuous efforts in working towards the target of limiting the increase in GHG emission intensity be no more than 10% in the next three years ending 31 December 2023, against the emission intensity level of the baseline year ended 31 December 2020.

Use of motor vehicles also gives rise to other air pollutants include nitrogen oxides ("**NO_x**"), sulphur oxides ("**SO_x**") and particulate matter ("**PM**"). For FY2018 to FY2020 and 6M2021, our NO_X emission was approximately 0.018 grams, 0.015 grams, 0.026 grams and 0.025 grams per thousand dollars of revenue and our SO_X emission amounted to approximately 0.00046 grams, 0.00038 grams, 0.00058 grams and 0.00054 grams per thousand dollars of revenue for FY2018 to FY2020 and 6M2021, respectively. During the aforesaid periods, our PM emission was approximately 0.0013 grams, 0.0011 grams, 0.0019 grams and 0.0018 grams per thousand dollars of revenue, respectively.

We have adopted various measures in managing the air emissions and GHG emissions during the course of our operations, including but not limited to:

- requiring employees to turn off lights, equipment, and other electronic devices when the devices are not in operation and before they leave the premises;

- using lighting products that are more energy-efficient, such as LED lighting;

- setting and keeping the air conditioners to a default temperature of around 24 degrees; and

- conducting regular inspection and maintenance of vehicles and equipment.

For FY2018 to FY2020 and 6M2021, approximately 0.02%, 0.02%, 0.04% and 0.06% of the returned products in terms of quantity were defective, respectively. All defective products were returned to the respective OEM suppliers, and the suppliers were responsible for handling and disposing the defective products. In respect of product return, for non-defective returned products selling through e-commerce platforms in the PRC, they are required to be in good condition and in original packaging that are suitable for resale, it is to ensure the products are intact and to reduce packaging wastes. Since all non-defective returned products are available for resale, these products would not be disposed nor destructed and thus there is no material impact on the environment. We will continue ensuring our adherence to stringent quality control measures in order to minimise the number of defective products manufactured by our OEM suppliers, and to reduce product returns.

PROPERTIES

As at the Latest Practicable Date, we operated our businesses through five leased properties in Hong Kong and 12 leased properties in the PRC. 11 of our leased properties serve as our offices, one serves as workshop, two serve as our staff quarters and three serve as warehouses. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. If we experience temporary interruption to our usage of any of our leased office space, we believe that our employees can continue to perform the material aspects of their duties remotely given that our offices do not carry out any production, manufacturing or physical retail activities; and our offices in other locations can adequately support the functioning of our business operations in areas where we experience temporary office space interruptions through our technology infrastructure. Therefore, we do not rely on the existing leases for our business operations, and we do not believe a contingency relocation plan is required. Among the leased properties, two leased properties in Hong Kong and one leased property in China are leased from the associates of Mr. Hui. For further details of the leasing arrangements with the associates of Mr. Hui, please refer to "Connected Transactions — Fully Exempt Continuing Connected Transaction" in this Prospectus.

As at the Latest Practicable Date, in addition to the above properties, we have also leased two car parking spaces for our use.

As at the Latest Practicable Date, seven lease agreements with respect to our leased properties in the PRC had not been registered and filed with the relevant land and real estate administration bureau in the PRC, among which, five of them were primarily due to the lack of full cooperation from the lessor to provide the valid title certificates, who was obligated to complete or cooperate with our Group to complete the registration and filing procedures in accordance with the local regulations. Those seven properties have a total gross floor area of approximately 3,200 sq.m. They are used for office purpose or used as our staff quarters.

According to the PRC laws and regulations, failure to complete the registration and filing of the lease agreement with the relevant PRC authorities may impose administrative penalties such as order to make rectification within specified time limit and a fine between RMB1,000 and RMB10,000 if fail to make rectification within the specific time limit, subject to the local regulations.

As to the provision of title ownership certificates or constructions project planning permit by the landlords, there were seven properties which we were not provided with the relevant title ownership certificate or construction project planning permit as at the Latest Practicable Date. As advised by the PRC Legal Advisers, the relevant lease agreements may be deemed invalid, and as a result our Group may be forced to move out of the relevant leased properties. Our Directors consider that as the relevant leased properties are used for office and our Group could easily identify suitable alternative office premises, our Directors believe that the relocation of our office will not have any material adverse impact on our Group's operation. See "Risk Factors — Risks Relating to the Business of our Group — We face certain risks relating to the properties leased by us in the PRC" for more details about the failure in registration and filing of the lease agreements.

As at the Latest Practicable Date, our leased properties (excluding the car parking spaces) had an aggregate area of approximately 5,167 sq.m., and each leased property had a gross floor area ranging from approximately 5 sq.m. to 1,194 sq.m. The relevant lease agreements had expiration dates ranging from 31 December 2021 to 30 June 2026.

As at 30 June 2021, our Group did not have any single property interest which had a carrying amount of 15% or more of our consolidated total assets.

RESEARCH AND DEVELOPMENT

During the Track Record Period and up to the Latest Practicable Date, we did not engage in any research and development activities.

LEGAL PROCEEDINGS AND COMPLIANCE

As a character IP company, IP rights play a very crucial role in our business. In spite of the fact that we actively pursue various kinds of IP protection measures to avoid possible infringement, we are from time to time party to various legal, arbitration or administrative proceedings arising in the ordinary course of our business as a character IP company.

Disputes and legal proceedings relating to a third party character IP brand ("Character IP Brand A")

Legal proceedings against us, our licensees and related parties relating to Character IP Brand A

During the Track Record Period, one of the IP characters licensed by our Group (the "**Alleged Trademark A**") was alleged to have infringed certain trademarks and IP characters ("**Brand A IP Rights**") of Character IP Brand A in the PRC. The Brand A IP Rights have been registered as trademarks in the PRC under multiple registrations, and the earliest registration date of such registrations is 28 January 2015. To the best of knowledge of our Directors as at the Latest Practicable Date, the following legal proceedings had been initiated against our Group and/or our licensees during the Track Record Period and up to the Latest Practicable Date (collectively, the "**Adverse Proceedings**"):

Nature and subject matter	Jurisdiction	Results and current status
Adverse Proceedings A: Trademark infringement proceedings were lodged by the plaintiff (being a sub-licensee of Character IP Brand A) ("**Plaintiff A**") in July 2020 against, among other defendants, our licensee ("**Licensee A**") in respect of manufacturing, distribution and sales of shoes and apparel ("**Class 25 Goods**") bearing the Alleged Trademark A.	The PRC	Plaintiff A's claim was dismissed in October 2020 after the first hearing held in September 2020, which was however overturned on appeal with judgement handed down in March 2021. As a result, all the defendants (including Licensee A) were liable to pay damages and costs in the aggregate sum of approximately RMB2.4 million, which had been fully settled as at 31 May 2021. Whilst our Group was not named as a defendant in Adverse Proceedings A, as advised by our PRC IP Legal Advisers, we would be liable to compensate Licensee A for its losses incurred in connection with Adverse Proceedings A, including the damages paid by Licensee A. We therefore had contingent liabilities of approximately HK$3.9 million in relation to Adverse Proceedings A as at the Latest Practicable Date. Nevertheless, our Directors consider, and the Sole Sponsor concurs, the likelihood of materialisation of such contingent liabilities to be minimal based on, among others, (i) our relationship with Licensee A; and (ii) the fact that we had not been requested to compensate Licensee A as at the Latest Practicable Date as confirmed by our Directors. Licensee A has subsequently filed a re-trial application on 31 August 2021 with the PRC Supreme People's Court (中華人民共和國最高人民法院), relying on, among others, (a) the Invalidation Actions (as defined below) had been lodged by our Group in June and July 2021 subsequent to the appeal decision; and (b) prior use of Alleged Trademark A with the support of newly collated evidence. The re-trial application has been accepted by the PRC Supreme People's Court and Licensee A has submitted the relevant supporting evidence and materials to the court in October 2021. No hearing date had been scheduled for the re-trial as at the Latest Practicable Date.

Nature and subject matter	Jurisdiction	Results and current status
Adverse Proceedings B & C: Trademark infringement proceedings were lodged by Plaintiff A in July 2020 against, among other defendants, our Group, ENS Toys and/or Licensee A in respect of sales of toys (“**Class 28 Goods**”) bearing the Alleged Trademark A.	The PRC	All of Plaintiff A’s claims were dismissed in October 2020 after the first hearings of Adverse Proceedings B & C held in September 2020, which were however overturned on appeal with judgement handed down in July 2021. Pursuant to the appeal judgement, the defendants were liable to pay damages and costs in the aggregate sum of approximately RMB0.7 million, of which our Group was liable for approximately RMB0.3 million. The said damages and costs of approximately RMB0.7 million had been fully settled as at 30 September 2021 as advised by our PRC IP Legal Advisers. As advised by our PRC IP Legal Advisers, whilst our Group was only liable to pay approximately RMB0.3 million pursuant to the appeal judgement (for which provision had been made as at 30 June 2021), we would also be liable to compensate Licensee A and ENS Toys for their losses incurred in respect of Adverse Proceedings B & C, including the damages paid by them. We therefore had contingent liabilities of approximately HK$0.6 million in relation to Adverse Proceedings B & C as at the Latest Practicable Date. Nevertheless, our Directors consider, and the Sole Sponsor concurs, the likelihood of materialisation of such contingent liabilities to be minimal based on, among others, (i) our relationship with Licensee A and ENS Toys; and (ii) the fact that we had not been requested to compensate Licensee A and ENS Toys as at the Latest Practicable Date as confirmed by our Directors.
Adverse Proceedings D & E: Trademark infringement, copyright infringement and unfair competition proceedings were lodged by the plaintiff (being a licensee of Character IP Brand A and the sub-licensor of Plaintiff A) (“**Plaintiff B**”) in May 2021 against our Group and a retailer of our character IP licensed products for the use of the Alleged Trademark A on kitchen utensils (“**Class 21 Goods**”), towels (“**Class 24 Goods**”) and Class 25 Goods.	The PRC	The proceedings had entered into the evidence examination stage in August 2021, during which the parties might challenge the admissibility and completeness of the evidence submitted by the other side, and no hearing date had been scheduled as at the Latest Practicable Date. As advised by our PRC IP Legal Advisers, the remedies sought by Plaintiff B included, among others, damages of RMB55.0 million in total. Based on the claims of Plaintiff B and taking into account the evidence available, including the evidence of use of the Alleged Trademark A and the Brand A IP Rights as submitted by Plaintiff B or collated by our Group, as well as other relevant factors, including but not limited to the Invalidation Actions (as defined below), our PRC IP Legal Advisers consider, and the Sole Sponsor concurs, the likelihood of our Group being found liable in Adverse Proceedings D & E to be remote.

Nature and subject matter	Jurisdiction	Results and current status
Adverse Proceedings F: Trademark infringement proceedings were lodged by Plaintiff A in June 2021 against Licensee A and an e-commerce platform operator in the PRC in respect of the sales of Class 25 Goods bearing the Alleged Trademark A, even after the appeal decision of Adverse Proceedings A had become effective.	The PRC	As advised by our PRC IP Legal Advisers, Adverse Proceedings F had been accepted by the court, and Licensee A's application to dispute the jurisdiction of the court had been refused. As at the Latest Practicable Date, Licensee A had yet to receive the notice of hearing of Adverse Proceedings F. Further, Plaintiff A also applied for preservation of assets of Licensee A in the amount of RMB3.0 million (equivalent to the damages sought by Plaintiff A in Adverse Proceedings F), which has been granted by the court. Taking into account, among others, (i) our Group was neither named as a defendant in Adverse Proceedings F, nor a subject of Plaintiff A's application for preservation of assets, (ii) the likelihood of success of our Group in the Invalidation Actions (as defined below) as advised by our PRC IP Legal Advisers, (iii) the re-trial application for Adverse Proceedings A had already been filed by Licensee A, and (iv) our relationship with Licensee A, our Directors consider, and the Sole Sponsor concurs, that Adverse Proceedings F did not and would not cause any material adverse impact on our Group.
Adverse Proceedings G: Trademark infringement proceedings were lodged by Plaintiff A in July 2021 against Licensee A, its subsidiary, and an e-commerce platform operator in the PRC in respect of the sales of Class 25 Goods bearing the Alleged Trademark A, even after the appeal decision of Adverse Proceedings A had become effective.	The PRC	As advised by our PRC IP Legal Advisers, Adverse Proceedings G had entered into the pre-trial mediation stage as required by the court, and the court would only accept the case if the parties could not resolve their disputes through mediation. Taking into account, among others, (i) our Group was not named as a defendant in Adverse Proceedings G, (ii) the likelihood of success of our Group in the Invalidation Actions (as defined below) as advised by our PRC IP Legal Advisers, (iii) the re-trial application for Adverse Proceedings A had already been filed by Licensee A, and (iv) our relationship with Licensee A, our Directors consider, and the Sole Sponsor concurs, that Adverse Proceedings G did not and would not cause any material adverse impact on our Group.

Legal proceedings initiated by us relating to Character IP Brand A

As part of our disputes with Character IP Brand A, the following legal proceedings had been initiated by us against Character IP Brand A (collectively, the "**Litigations**") during the Track Record Period and up to the Latest Practicable Date with a view to protect our legitimate interests:

Nature and subject matter	Jurisdiction	Results and current status
IP legal proceedings		
Litigation A: Trademark infringement proceedings were lodged by our Group in 2019 against a shoe seller in the PRC for its infringing use of a trademark which is similar to our registered B.Duck trademark.	The PRC	One of the defence put forward by the defendant was that it was a sub-licensee of Character IP Brand A, such that it had the right to use the subject infringing trademark. The court ruled in favour of our Group in March 2021 and awarded us damages of approximately RMB0.7 million, which had been fully settled as at the Latest Practicable Date. Such decision was final as the defendant did not file any appeal within the prescribed time limit of 15 days from the receipt of judgement.
Litigations B: A total of four trademark registration invalidation actions (the "**Invalidation Actions**") were lodged by our Group in June and July 2021 against the PRC trademark registrations of certain Brand A IP Rights (the "**Invalidating Trademarks**") in classes 21, 24, 25 and 28 (where such registrations were relied on by Plaintiff A and Plaintiff B in establishing their rights in Adverse Proceedings A to G), on the following major grounds: (i) the Invalidating Trademarks are visually similar to Alleged Trademark A and are registered in respect of goods that are similar to the goods for which Alleged Trademark A has been put into use prior to the application date of the trademark registrations of the Invalidating Trademarks. Further, Alleged Trademark A has attained certain degree of influence through such prior use. As such, the registrations of the Invalidating Trademarks are illegitimate and constitute pre-emptive registrations of Alleged Trademark A; and	The PRC	The Invalidation Actions had been accepted by the China National Intellectual Property Administration as at 30 September 2021. As at the Latest Practicable Date, our Group had duly filed supplemental grounds of invalidation together with supporting evidence for the Invalidation Actions in accordance with the relevant PRC laws and regulations. As advised by our PRC IP Legal Advisers, according to the relevant PRC laws and regulations, the decision of trademark invalidation actions shall be handed down within nine months, subject to a three-month extension in special circumstances. In light of the evidence collated by our Group, and having reviewed the evidence submitted by Plaintiff A and Plaintiff B in the Adverse Proceedings, our PRC IP Legal Advisers consider, and the Sole Sponsor concurs, that our Group is likely to prevail in the Invalidation Actions. As advised by our PRC IP Legal Advisers, in the event that the Invalidation Actions are ruled in our favour, the registered owner of the Invalidating Trademarks may lodge an appeal with the PRC court within 30 days of the invalidation decisions, in which case the decisions of the Invalidation Actions would not be effective until the conclusion of the court hearing.

Nature and subject matter	Jurisdiction	Results and current status
(ii) the Alleged Trademark A had attained a higher reputation through extensive use prior to the application date of the trademark registrations of the Invalidating Trademarks, and the registrations of the Invalidating Trademarks were obtained by illegitimate means with malicious intent. As advised by the PRC IP Legal Advisers, in the event that a PRC trademark registration is invalidated, the rights conferred by such trademark registration would be deemed not to exist at all according to the relevant PRC laws and regulations.		
Litigation C: Trademark infringement and unfair competition proceedings were lodged by our Group in July 2021 against the defendants (namely, Plaintiff A, a licensee of Plaintiff B, the brand owner of Character IP Brand A, and a distributor of Character IP Brand A) in respect of, among others, (i) the use of trademarks which are similar to our registered B.Duck trademarks in respect of goods which are similar to and/or identical to the goods covered by our B.Duck trademark registrations, and such use has constituted trademark infringement; and (ii) the misleading marketing activities conducted, including but not limited to placing products bearing our registered trademarks in the retail outlets of Character IP Brand A and using elements similar to our registered trademarks as decorations of such retail outlets. The remedies sought by our Group included, among others, damages in the amount of RMB50.0 million and an order that the defendants forthwith cease the infringing acts.	The PRC	As advised by our PRC IP Legal Advisers, the defendants had exercised the procedural rights to dispute the jurisdiction of the court, and the court's adjudication on this matter was still pending as at the Latest Practicable Date. In addition, our Group had also applied for preservation of assets of the defendants, which had been accepted by the court as at the Latest Practicable Date as advised by our PRC IP Legal Advisers. According to our PRC IP Legal Advisers, based on the relevant PRC laws and regulations, a ruling shall be made within six months after the lodging of the proceedings, which is extendible for a further period of six months subject to the discretion of the court in special circumstances. Further, as advised by our PRC IP Legal Advisers, in the event that the court rules in favour of the defendants, our Group should only be liable for the payment of court fees and official fees of approximately RMB0.3 million in total, which had already been settled by our Group when lodging the proceedings.

Nature and subject matter	Jurisdiction	Results and current status
Other legal proceedings		
Litigation D: In July 2021, our Group filed a Writ of Summons with the High Court of Hong Kong against the defendant (being a director of the brand owner of Character IP Brand A) in respect of his defamatory statements published in a newspaper in Hong Kong, as a result of which our Group had suffered loss and our reputation was damaged. Our Directors consider that such defamatory statements wrongfully alleged that, among others, our Group had repeatedly and/or constantly commenced lawsuits for infringement of intellectual property rights against many companies in the PRC including the defendant's companies, or the defendant's IPs, where the court had dismissed such claims or ruled in favour of the defendant(s) in all or each and every one of such lawsuits. The remedies sought by our Group included, among others, damages for libel and/or malicious falsehood and an order compelling the defendant to publish clarification and apology in newspaper in Hong Kong.	Hong Kong	As advised by our Litigation Legal Advisers, the defendant lodged his Acknowledge of Service of Writ of Summons with the High Court of Hong Kong indicating his intention to contest our claim in July 2021 and filed his defence on 16 November 2021. Pursuant to the order of the Court dated 21 December 2021, our Group has up to 18 January 2022 to file and serve our reply as advised by our Litigation Legal Advisers. As advised by our Litigation Legal Advisers, as the case is still at an initial stage, it would be premature to estimate the expected timeline in relation to events after the close of pleadings, and the whole defamation proceedings may last from less than one year to several years' time should the case proceed to trial stage. Subject to reviewing the discovery documents, we are preliminarily advised by our Litigation Legal Advisers that our Group has a reasonable prospect of success in the defamation proceedings. In addition, as advised by our Litigation Legal Advisers, should the defendant prevail in the defamation proceedings, our Group may be liable for the defendant's legal costs.

Other legal proceedings

During the Track Record Period and up to the Latest Practicable Date, our Group and/or licensees were also subject to the following IP rights infringement legal proceedings (collectively, the "**Other Litigations**"):

Nature and subject matter	Jurisdiction	Results and current status
Other Litigation A: The products of one of our licensees were alleged to have infringed the design patent (primarily pertaining to the shape of a beverage container) of a third party in 2018, and Semk Licensing, being the licensor of the B.Duck Family Characters used on the alleged infringing products, was named as a co-defendant in the corresponding design patent infringement proceedings against the said licensee. During the Track Record Period, our revenue attributable to the said licensee amounted to approximately HK$0.8 million, HK$0.8 million, HK$1.3 million and HK$1.7 million, respectively, representing approximately 0.4%, 0.3%, 0.6% and 1.4% of our total revenue for the corresponding periods.	The PRC	The plaintiffs prevailed in both the first hearing and the appeal hearing and the defendants (including Semk Licensing) were jointly and severally liable for damages and legal costs in aggregate not exceeding RMB0.6 million, which had been fully settled as at 31 May 2021. Our Group was fully indemnified by the defendant licensee for all our costs incurred and damages payable in respect of such legal proceedings and our Group was not materially adversely affected by such legal proceedings.
Other Litigations B: As part of our IP protection measures, our Group lodged five legal proceedings ("**Other Litigations B1**") from May 2019 to October 2019 against certain defendants in respect of the use of an IP character (the "**Brand B IP Character**"), which we considered as an infringing act since the Brand B IP Character appeared to be similar to certain of our own IP characters. At the material time, the Brand B IP Character was registered as a trademark in the PRC with a registration date of 7 November 2018.	The PRC	The first hearing of one of the five legal proceedings comprising Other Litigations B1 took place in December 2019 and our Group's claims and subsequent appeal were dismissed in March 2020 and April 2021, respectively. On the other hand, in January 2020, the trademark registration of the Brand B IP Character was invalidated. As at the Latest Practicable Date, out of the remaining four legal proceedings of Other Litigations B1, three had been withdrawn as part of our litigation strategy, whereas the appeal court had ruled in favour of our Group in the remaining one legal proceedings and ordered the first instance court to reconsider the case.
As a result of Other Litigations B1, one of the defendants in Other Litigations B1, being the licensee of the Brand B IP Character, subsequently lodged a civil complaint against our Group in October 2019 ("**Other Litigation B2**"), alleging our Group had committed IP infringement and unfair competition by, among others, initiating Other Litigations B1.		The first hearing of Other Litigation B2 took place in May 2020. However, the plaintiff (being one of the defendants in Other Litigations B1) subsequently withdrew its claims and the court thereby dismissed Other Litigation B2 in September 2021 without imposing any liability on the part of our Group as advised by our PRC IP Legal Advisers.

Our Directors consider, and the Sole Sponsor concurs, that the above legal proceedings that were initiated against our Group and/or our licensees did not and are unlikely to cause any material adverse impact on our business, financial conditions and results of operations (a) with reference to the results and current status of the Adverse Proceedings, the Litigations and the Other Litigations as set out above, and (b) based on the following factors:

(i) the Alleged Trademark A only contributed to an insignificant portion of our revenue and operations during the Track Record Period. During the Track Record Period, our Group's revenue attributable to the Alleged Trademark A accounted for less than 0.4% of our total revenue, whereas the number of SKUs of products bearing the Alleged Trademark A accounted for less than 0.6% of the total SKUs approved by our Group. On the other hand, as confirmed by our Directors, the majority of our Group's revenue during the Track Record Period was attributable to the frontal views (where applicable) of the B.Duck Family Characters. The revenue contribution attributable to the Alleged Trademark A during the Track Record Period was calculated by adding (i) the royalty income attributable to the Alleged Trademark A under our character licensing business, and (ii) the sales amount of products bearing the Alleged Trademark A (the "**Trademark A Products**") under our e-commerce and other business. The royalty income attributable to the Alleged Trademark A during the Track Record Period was ascertained by (a) identifying the relevant licensees and licensing agreements based on the relevant SKUs of Trademark A Products sorted from the list of total approved SKUs of products maintained by our Group, (b) making enquiries with the licensees so identified to obtain, among others, the sales volume and contract price of each SKU of Trademark A Products, and cross check the same against the relevant licensing agreements, the royalty reports received from the licensees, as well as our internal records such as records of number of hologram stickers sold, and (c) multiplying the contract price and volume of Trademark A Products so ascertained with the applicable royalty rate under the relevant licensing agreement. On other hand, our sales attributable to Trademark A Products during the Track Record Period were ascertained from our internal sales records which set out, among others, the SKUs of products sold and the corresponding sales amount. Such internal sales records are cross-checked by us regularly with reference to the sales report of e-commerce platforms to ensure accuracy and completeness. While our Group was not named as a defendant in Adverse Proceedings A and was not bound by the unfavourable appeal decision, and that we are only prohibited from using the Alleged Trademark A in respect of Class 28 Goods only (i.e. toys) pursuant to the appeal decisions of Adverse Proceedings B & C, as confirmed by our Directors, pending the final outcome of the Adverse Proceedings and the Litigations and for prudent and compliance purposes, our Group has, as an interim measures, temporarily ceased creating and approving any style guides and product designs relating to the application of the Alleged Trademark A on all kinds of products after the unfavourable appeal decision of Adverse Proceedings A (rather than until the unfavourable appeal decisions of Adverse Proceedings B & C). Nevertheless, given the insignificant contribution of the Alleged Trademark A as discussed above, our Directors consider that such interim measures has not caused any material adverse impact on our Group. Further, even in the unlikely event that the relevant Adverse Proceedings and Litigations are not ruled in our Group's favour and that our Group has to permanently cease using the Alleged Trademark A going forward, our Directors also consider that there will not be any material adverse impact on the results of operations and financial conditions of our Group;

(ii) as at the Latest Practicable Date, in connection with Adverse Proceedings A to C, our contingent liabilities amounted to approximately HK$4.5 million only, which were comparatively insignificant in light of our results of operations and financial performance during the Track Record Period. For illustrative purpose, such contingent liabilities only account for approximately 3.4% of our aggregated adjusted net profit under non-HKFRS financial measures over the whole Track Record Period. As such, even in the unlikely event that such contingent liabilities are materialised, our results of operations and financial performance will not be materially adversely affected;

(iii) the advice of our PRC IP Legal Advisers that:

(a) amongst the Adverse Proceedings for which an effective judgement had been pronounced as at the Latest Practicable Date, our Group was only named as a defendant in Adverse Proceedings B & C, which relate to trademark infringement with respect to the use of the Alleged Trademark A on toys only. According to our PRC IP Legal Advisers, as at the Latest Practicable Date and insofar as the Adverse Proceedings are concerned, as our Group was only prohibited to use the Alleged Trademark A with respect to toys only, (1) the use of the Alleged Trademark A by our Group in respect of goods and services for which trademark registrations of the Alleged Trademark A had been secured was unaffected; and (2) the use of our other trademarks by our Group was unaffected. Further, after excluding the Alleged Trademark A and other trademarks of our Group which are of similar nature as the Alleged Trademark A in terms of visual presentation, the remaining trademarks used by our Group in our course of business (the "**Remaining Marks**") are considered by the PRC IP Legal Advisers to be dissimilar to the trademark relied on by Plaintiff A and Plaintiff B in Adverse Proceedings A to E, on the basis, among others, that the Remaining Marks are visually and conceptually dissimilar, and possess different distinctive characters, such that the use of the Remaining Marks will unlikely to cause confusion on the part of the public, which is one of the relevant factors for establishing a trademark infringement claim under the relevant PRC laws and regulations;

(b) our Group is likely to prevail in the Invalidation Actions, which seek to invalidate the trademark registrations relied on by Plaintiff A and Plaintiff B in establishing their relevant trademark rights in Adverse Proceedings A to G on the basis, among others, that:

(1) the evidence collated by us which demonstrates our first use of the Alleged Trademark A in respect of Class 21 Goods, Class 24 Goods, Class 25 Goods and Class 28 Goods no later than 2008, 2010, 2011 and 2008, respectively, which all predates (A) the application date of 8 May 2019 of the registrations of the Invalidating Trademarks and (B) the respective date of first use (if any) of the Invalidating Trademarks in classes 21, 24, 25 and 28 based on the findings of the court in the Adverse Proceedings or evidence submitted by Plaintiff A and Plaintiff B in the Adverse Proceedings as at the Latest Practicable Date. As such, our PRC IP Legal Advisers consider that the Alleged Trademark A has attained certain reputation through prior use and the registrations of the Invalidating Trademarks are therefore illegitimate and obtained with malicious intent, and constitute pre-emptive registrations of the Alleged Trademark A. Therefore, the registrations of the Invalidating Trademarks should be invalidated based on Article 32 of the PRC Trademark Law (《中華人民共和國商標法》), which states that "*the application for registration of a trademark shall not harm the pre-existing rights of others, and one shall not pre-emptively register through illegitimate means the trademark of others which has been in prior use and attained certain reputation (申請商標註冊不得損害他人現有的在先權利，也不得以不正當手段搶先註冊他人已經使用並有一定影響的商標)*", Article 44 of the PRC Trademark Law, which states that "*a trademark registration shall be invalidated if the registration is obtained through deceptive or illegitimate means (已經註冊的商標...是以欺騙手段或者其他不正當手段取得註冊的，由商標局宣告該註冊商標無效)*" and Article 23(1) of the Provisions of the Supreme People's Court on Several Issues concerning the Trial of Administrative Cases involving Trademark Authorisation and Confirmation (No. 19 of 2020) (《最高人民法院關於審理商標授權確權行政案件若干問題的規定》 (法釋(2020)19號)), which states that "*it can be inferred that a trademark is pre-emptively registered with illegitimate means vis-à-vis another trademark if that other trademark has attained certain reputation with prior use, and the applicant has or ought to have knowledge of the same (在先使用人主張商標申請人以不正當手段搶先註冊其在先使用並有一定影響的商標的，如果在先使用商標已經有一定影響，而商標申請人明知或者應知該商標，即可推定其構成「以不正當手段搶先註冊」)*"; and

(2) the Invalidating Trademark is similar to one of our Group's trademarks (for which a prior trademark registrations have been secured), and that the goods covered under the registration of the Invalidating Trademark in class 21 are similar or identical to those covered under the said prior trademark registration secured by our Group. As such, according to Article 30 of the PRC Trademark Law, which states that "*the application of a trademark shall be refused if the applied for mark is similar or identical to a trademark which is already registered or preliminary approved for use in respect of goods and services which are similar or identical (申請註冊的商標...同他人在同一種商品或者類似商品上已經註冊的或者初步審定的商標相同或者近似的，由商標局駁回申請，不予公告)",* and Article 45 of the PRC Trademark Law, which states that "*the registration of a trademark can be invalidated if it contravenes Article 30, provided that the invalidation action is lodged within five years of registration (已經註冊的商標，違反本法...第三十條...自商標註冊之日起五年內，在先權利人或者利害關係人可以請求...宣告該註冊商標無效)*", our PRC IP Legal Advisers consider that the registration of the Invalidating Trademark in class 21 should therefore be invalidated;

(c) the likelihood of our Group being found liable in Adverse Proceedings D & E being remote, taking into consideration, among others, (1) the likelihood of our Group to succeed in the Invalidation Actions as set out in (b) above; (2) the prior use of Alleged Trademark A with the support of newly collated evidence; and (3) the fact that the unfavourable appeal decision of Adverse Proceedings B & C should not and would not have any bearing on Adverse Proceedings D & E as the goods concerned are neither the same nor similar;

(d) the claim of damages of RMB55.0 million by Plaintiff B in Adverse Proceedings D & E is unsubstantiated and hence unjustified and without basis. As advised by the PRC IP Legal Advisers, based on available information, Plaintiff B had yet to submit sufficient evidence to substantiate the damages as claimed in Adverse Proceedings D & E as at the Latest Practicable Date. Further, as advised by our PRC IP Legal Advisers, (1) according to Article 63 of the PRC Trademark Law, *"where it is difficult to determine the actual losses suffered by the right holder due to the infringement, the gains of the infringer as a result of the infringement, or the licence fees of the registered trademark, the People's Court may award damages of not more than RMB5.0 million according to the circumstances of the infringement (權利人因被侵權所受到的實際損失、侵權人因侵權所獲得的利益、注冊商標許可使用費難以確定的，由人民法院根據侵權行為的情節判決給予五百萬元以下的賠償)"*; (2) according to Article 17(4) of the PRC Anti-Unfair Competition Law (《中華人民共和國反不正當競爭法》), *"where it is difficult to determine the actual loss suffered by the right holder due to the infringement or the gains of the infringer as a result of the infringement, the People's Court may, based on the circumstances of the infringement, award compensation in the amount of not more than RMB$5.0 million to the right holder (權利人因被侵權所受到的實際損失、侵權人因侵權所獲得的利益難以確定的，由人民法院根據侵權行為的情節判決給予權利人五百萬元 以下的賠償)"*; and (3) in respect of any infringing acts committed on or before 31 May 2021, according to Article 49(2) of the Copyright Law of the PRC (as amended in 2010) (《中華人民共和國著作權法》(2010年修訂)), *"where the right holder's actual losses or the infringer's illegal gains cannot be determined, the People's Court shall, on the basis of the seriousness of the infringing acts, award compensation of not more than RMB0.5 million (權利人的實際損失或者侵權人的違法所得不能確定的，由人民法院根據侵權行為的情節，判決給*

予五十萬元以下的賠償)”. Accordingly, our PRC IP Legal Advisers are of the view that, based on available information and the claims put forward by Plaintiff B in Adverse Proceedings D & E as at the Latest Practicable Date, in the event that there is insufficient evidence for ascertaining the losses incurred by Plaintiff B or the gain of our Group as a result of the alleged infringing acts, or the licence fees of the relevant trademark registrations of Brand A IP Rights, the maximum damages our Group would be liable to pay in Adverse Proceedings D & E would be not more than RMB10.5 million (as opposed to the RMB55.0 million), plus the reasonable costs and litigation fees incurred by Plaintiff B of approximately RMB0.8 million (based on the claims of Plaintiff B as at the Latest Practicable Date), amounting to approximately RMB11.3 million in total. For illustrative purpose, such amount represents approximately 10.0% of our aggregated adjusted net profit under non-HKFRS financial measures over the whole Track Record Period. Furthermore, in respect of the trademark infringement claims in Adverse Proceedings D & E, as advised by our PRC IP Legal Advisers, it is not uncommon in trademark infringement proceedings for the plaintiff to apply to the relevant court for an order to determine the amount of damages payable by computing the alleged infringers' gain as a result of the alleged infringing acts. For illustrative purposes, according to our PRC IP Legal Advisers, (1) as the relevant trademark registrations relied upon by Plaintiff B was only registered in January 2020, hence according to the relevant PRC laws and regulations, only the infringing acts subsequent to the trademark registration date shall be taken into account in damages calculation, (2) coupled with the fact that our Group's revenue attributable to the Alleged Trademark A which accounted for less than 0.4% of our total revenue during the Track Record Period (only equivalent to approximately RMB3.0 million), the damages in respect to the Adverse Proceedings D & E shall be lower than our Group's revenue attributable to the Alleged Trademark A. As such, taking into account, among others, the advice of our PRC IP Legal Advisers set forth in (a) to (d), our Directors consider that Adverse Proceedings D & E are unlikely have any material adverse impact on our Group; and

(e) with respect to Adverse Proceedings F & G, taking into account (1) our Group was not named as the defendant in these proceedings; (2) our Group is likely to prevail in the Invalidation Actions as illustrated above, such that the trademark registration relied upon by Plaintiff A in Adverse Proceedings F & G will likely be invalidated, and hence the trademark registration will be deemed not to have existed; and (3) in any event, since Licensee A is subject to the appeal decision of Adverse Proceedings A, it is legally bound to comply with the judgment pending the final results of the re-trial application of Adverse Proceedings A coupled with the fact that our Group has suspended Licensee A's licence of Alleged Trademark A in respect of goods in class 25 after the appeal decision of Adverse Proceedings A, and therefore our PRC IP Legal Advisers consider that Licensee A shall be responsible for all liabilities arising from any alleged infringing acts subsequent to the appeal decision in Adverse Proceedings A as alleged in Adverse Proceedings F & G, such that our Group shall not be liable for any damages payable by Licensee A. In light of the aforesaid, our Directors consider that Adverse Proceedings F & G are unlikely to cause any material adverse impact on our Group;

(iv) according to Frost & Sullivan, it is not uncommon in our industry for claims of IP rights infringement to be lodged by competitors against IP licensors, as in our case in the Adverse Proceedings; and

(v) the indemnity provided by our Controlling Shareholders against, among others, any losses, costs, expenses, damages or other liabilities which we may incur or suffer arising out of or in connection with the Adverse Proceedings. Please see our discussions below for further details.

Please refer to "Risk Factors — Risks Relating to the Business of Our Group — Infringement or misappropriation claims by third parties against us or unauthorised use of our IP rights may adversely affect our business and reputation" in this Prospectus for more details. As detailed in "— Our major IP protection measures" in this section above, our Group has adopted various measures with an aim to protect our intellectual property rights and prevent infringement of intellectual property rights of other third parties. As advised by our PRC IP Legal Advisers, the registration of trademarks for our existing characters and the characters which are expected to be rolled out by us would effectively confer us an exclusive right to use the registered trademarks without the intervention by other third parties. Besides, as part of our IP protection measures, we would from time to time monitor the registration of trademarks which are similar to our registered trademarks by other third parties and would take further actions to either oppose to those applications or invalidate the registrations in the PRC, if necessary. As advised by our PRC IP Legal Advisers, such actions would also mitigate the risk of our Group being subject to the infringement proceedings maliciously initiated by other third parties if they are to successfully register the relevant trademarks. Meanwhile, our Group has adopted, among others, the following internal control measures in relation to the use of the Alleged Trademark A:

(i) our design team has ceased creating and approving any style guides and designs relating to the application of the Alleged Trademark A since 15 March 2021, including the designs generated by our in-house product development team and those submitted by our licensees. Existing style guides involving the use of Alleged Trademark A have also been archived to ensure no SKU of products will be created with these style guides;

(ii) we have notified our licensing team on 15 March 2021 to monitor and check the implementation of the above measures by our design team. Our licensing team will, with the assistance of our PRC IP Legal Advisers where necessary, regularly inspect the style guides created and approved by our design team to ensure the Alleged Trademark A is not being applied. Further, our brand assurance team will also conduct a final check to ensure that the Alleged Trademark A has not been used prior to giving the final confirmation and approval for official product launch; and

(iii) on or around the same date, our licensing team has identified and notified the relevant licensees (including Licensee A) who had been licensed the use of Alleged Trademark A, and no hologram stickers will be sold to such licensees in relation to products bearing the Alleged Trademark A;

(iv) as confirmed by our Directors, (i) on or around 15 March 2021, we notified Licensee A to suspend its licence of the Alleged Trademark A in respect of goods in class 25 in light of the unfavourable appeal decision of Adverse Proceedings A, and (ii) on or around 22 July 2021 upon the receipt of the appeal judgments of Adverse Proceedings B & C by our Group, we informed Licensee A to suspend its licence of the Alleged Trademark A in respect of goods in class 28; and

(v) our Group subsequently followed up with Licensee A to remind it to cease selling goods in class 25 and class 28 bearing the Alleged Trademark A as we had already suspended the licence of the Alleged Trademark A in these two classes.

The amounts relating to the damages and/or costs sought against our Group or our Group would be liable to pay as set out above are provided for investors' reference only, and in any event do not represent our Group's admission of liability in the abovementioned legal proceedings (including the Adverse Proceedings). Our Group will, with the assistance of our professional advisers, vehemently defend and protect our IP rights in relation to such legal proceedings and other potential legal, arbitration or administrative proceedings initiated by third parties from time to time, to protect our legitimate interests. Furthermore, pursuant to the Deed of Indemnity, our Controlling Shareholders have undertaken to indemnify us, among others, any losses, costs, expenses, damages or other liabilities which we may incur or suffer arising out of or in connection with the Adverse Proceedings. See "Statutory and General Information — D. Other Information — 18. Tax and other indemnities" in Appendix IV to this Prospectus for further details.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group had not been involved in any legal, arbitration or administrative proceedings against our Group that could have a material adverse effect on our business, financial conditions or results of operations. Furthermore, to the best of knowledge of our Directors, as at the Latest Practicable Date, there was no pending or foreseeable legal, arbitration or administrative proceedings against our Group that could cause a material adverse effect on our business, financial conditions or results of operations.

Our Directors confirm that, we have complied with all applicable laws and regulations in Hong Kong and the PRC in all material respects during the Track Record Period and up to the Latest Practicable Date.

INTERNAL CONTROL AND RISK MANAGEMENT

Our Board is responsible for establishing our internal control system and reviewing its effectiveness. In preparation for the Listing, our Group has engaged an independent third party consultant (the "**Internal Control Consultant**") to perform a review over selected areas of our internal controls over financial reporting (the "**Internal Control Review**"). The selected areas of our internal controls over financial reporting that were reviewed by the Internal Control Consultant included entity level controls and business process level controls, including revenue, receivables and collection, purchases, procurements, payables and payment, intellectual properties, inventories, cash/treasury management, taxation, property, plant and equipment, financial reporting and disclosure, human resources and payroll, outsourcing management and IT general controls (for key financial reporting system only).

Upon completion of the Internal Control Review, the following key findings are noted:

– our Board, Audit Committee, Remuneration Committee and Nomination Committee were not yet formally established in accordance with the Listing Rules;

– the implementation of our declaration of conflict of interest should be enhanced;

– controls over remuneration for executive and non-executive Directors should be established;

– monitoring mechanism over notifiable transactions should be established;

– verification procedures of the accuracy and completeness of royalty reports from our licensees should be enhanced; and

– the name, position and signature of the signers have not been presented on certain executed PRC licensing agreements of our Group, and only the company chops were affixed thereon. Our Directors considered that this was solely caused by our inadvertent oversight of the policy for executing the licensing agreement. However, as advised by our PRC Legal Advisers, according to the relevant provisions of the Civil Code of the People's Republic of China, a written contract is formed when both parties have affixed their signatures, seals or fingerprints thereto.

In response to the abovementioned findings, our Group has taken actions to enhance our internal control system and upon the completion of the follow-up reviews performed by the Internal Control Consultant to review the status of the management actions taken by our Group to address the findings of the Internal Control Review (the "**Follow-up Review**"). The Internal Control Consultant did not have any further recommendations in the Follow-up Review except for (i) the establishment of the future Board and sub-committees including the Audit Committee, the Remuneration Committee and the Nomination Committee and the respective terms of reference for the Board and the committees are yet to be drafted; and (ii) the control over remuneration for executive Directors should be established and these recommendations will be implemented and completed by our Group before the Listing. In response to these findings, our Group will implement appropriate measures to enhance our internal control system before Listing, which include the following:

- to identify and appoint the required independent non-executive Directors for the future Board and sub-committees;

- to formulate the respective terms of reference for each of the sub-committees; and

- to approve and adopt the remuneration policy before Listing for the determination of remuneration of our Directors by the remuneration committee.

Besides, we have adopted a series of risk management policies, measures and procedures designated to provide the management and staff of our Group to identify, assess, treat, monitor and communicate on key risks including strategic, financial, operational and compliance risk.

Our risk management process comprises of five activities, including determining context, risk assessment, risk treatment, risk monitoring and risk reporting. The relevant procedures are set out below:

- *Determine context* Our Directors and senior management to determine the context of risks to be assessed.

- *Risk assessment* Our Directors and senior management along with the department heads should hold a meeting annually to discuss and address the key risks faced by the Company using relevant and up-to-date information.

- *Risk treatment* Our management should determine whether or not to reduce the current level of risk to an acceptable level through implementation of additional controls or risk mitigation actions.

- *Risk monitoring* Once an appropriate risk treatment has been determined, our Company's monitoring and review process should ensure that, among other things, the risk control and treatment measures are effective in both design and operation.

- *Risk reporting* The risk assessment results should be registered and such register should be approved by the Board.

The Internal Controls Review and the Follow-up Review were conducted based on information provided by our Group and no assurance or opinion on internal controls was expressed by the Internal Control Consultant.

Our Directors believe that the current internal control system is appropriate for our business operations. Our Board will regularly review the administration and adequacy of, and develop and revise, our internal control system to cater for our expansion.

We have decided to adopt the following measures to ensure ongoing compliance with the applicable laws and regulations and to strengthen our internal control upon Listing:

- Our Directors have attended trainings conducted by our legal advisers as to Hong Kong laws on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the SFO and the Listing Rules and our Directors are fully aware of their duties and responsibilities as directors of a listed company in Hong Kong;

- To prevent, avoid and identify any fraudulent practices in our Group, we will establish and implement, among other things, an anti-fraud policy which will evaluate and develop anti-fraud processes and set up a whistle-blower policy;

- To ensure compliance with the Listing Rules, we have appointed China Everbright Capital Limited as our compliance adviser to advise us and have arranged for our legal advisers as to Hong Kong laws to provide training to our Directors on the responsibilities and liabilities of directors after Listing; and

- To prevent and avoid any leakage of price sensitive or inside information after Listing, we will establish a formal communication policy and framework which includes, among other things, classification of information, information disclosure channels and proper dissemination of information.

IMPACT OF OUTBREAK OF COVID-19 ON OUR BUSINESS

An outbreak of COVID-19 first emerged in late December 2019 and has expanded globally. The World Health Organisation declared the outbreak of COVID-19 as a public health emergency of international concern in January 2020, and further characterised COVID-19 as pandemic in March 2020.

According to the Frost & Sullivan Report, COVID-19 has impacted the global retail market with consumers' lower income expectation and cutting down on daily spending. Further, the PRC government and the Hong Kong government have also implemented measures to control pandemic, such as mandatory quarantine, closure of work places and facilities, travel limitations and other relevant measures. Our Directors consider that the outbreak of COVID-19 has had the following impact on our business, results of operation and financial conditions:

- *Character licensing business:* Comparing with FY2019, the outbreak of COVID-19 in FY2020 did not have any material adverse impact on our character licensing business in terms of revenue, as our character licensing business recorded a growth in revenue by approximately HK$16.4 million or approximately 20.1% for FY2020. Please refer to "Financial Information — Review of Historical Results of Operations — FY2019 compared to FY2020 – Revenue" in this Prospectus for further details. That said, the number of licensing contracts awarded during the year by licensees decreased from 136 in FY2019 to 105 in FY2020, which our Directors believe was primarily attributable to a more conservative business approach taken by the licensing industry as a whole due to the outbreak of COVID-19. Further, we have experienced early termination of a total of 11 licensing contracts by our licensees during FY2020. Such early termination of contracts had led to a loss of outstanding contract sum of approximately HK$3.1 million, which could be recognised as our revenue across the remaining contract term but for such early termination; and

- *E-commerce and other business:* In terms of revenue, our e-commerce and other business recorded a decrease in revenue by approximately HK$25.9 million or approximately 16.1% for FY2020 compared with FY2019. Our Directors consider that whilst such decrease was in part attributable to (i) the decrease in consumer spending due to the outbreak of COVID-19; and (ii) our adoption of a more reserved merchandise procurement policy with a view to minimise the risk of obsolete stock in contemplation of a decrease in market demand due to the outbreak of COVID-19, the downsizing of our offline sales operations in FY2020 also played a part in it. In terms of operations, we experienced some disruptions of our logistics service providers' operations in the first quarter of FY2020, which resulted in certain occasions of delay in the delivery of our products to customers. Our Directors confirm that the operations of our logistics service providers had fully resumed since the second quarter of FY2020 and we did not experience any material delay in delivery of our products to customers since then. In terms of merchandise procurement, as we generally maintain a stock level sufficient for three months' sale, we did not experience any disruption or delay in the provision and delivery of procured merchandises that materially affected our business operations, despite certain of our suppliers were subject to quarantine measures and experienced temporary suspension in the first quarter of FY2020 to the knowledge of our Directors.

According to the Frost & Sullivan Report, (i) the licensing market is expected to recover soon after COVID-19 is contained; (ii) the ripple effect of COVID-19 on the licensing market is expected to be limited in the long run; and (iii) the e-commerce market of character IP licensed goods is expected to grow to HK$31.8 billion in 2025. As such, despite the impact of COVID-19 on our Group as discussed above, our Directors believe such impact was only temporary and short-term, and did not have any material adverse effect on our Group as a whole, particularly in light of (i) the increase in our net profit by approximately HK$30.4 million or approximately 126.3% to approximately HK$54.5 million for FY2020 as compared to FY2019; and (ii) the increase in our net profit by approximately HK$3.2 million or approximately 22.7% to approximately HK$17.5 million for 6M2021 as compared to 6M2020.

Having said the above, our Directors are also aware that, since the second half of 2021, there had been a resurgence of COVID-19 in certain part of China. We are uncertain as to whether there will be any further waves of COVID-19 outbreaks. Even though our business operation was not materially affected by COVID-19 at the Latest Practicable Date, we cannot predict whether the resurgence of COVID-19 will deteriorate or whether the outbreak will continue to recur from time to time. Our Directors' assessment of the impact is based on information available up to the Latest Practicable Date and hence, our Directors' assessment may change over time along with the development of the COVID-19 pandemic.

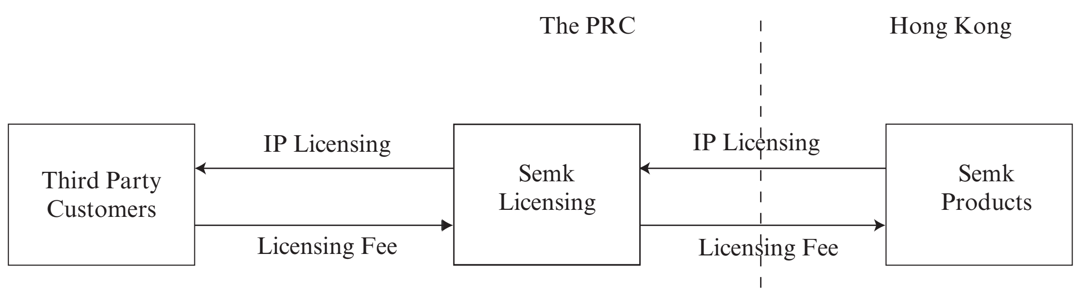
TRANSFER PRICING ARRANGEMENT

Business Overview

The Character Licensing Business

During the Track Record Period, Semk Products authorised its Shenzhen subsidiary Semk Licensing to grant the use of our character IP rights to third party customers in the PRC and received licensing fee. Subsequently Semk Licensing paid licensing fee to Semk Products for its activities performed and value contribution to the whole operation (the "**Covered Transactions I**"). Semk Products was responsible for the IP development, promotion and marketing strategy formulation. Semk Licensing was responsible for promotion and communication with third party customers in the PRC under the marketing strategy formulated by Semk Products.

A diagram detailing the business and logistics flow of the character licensing business arrangements within our Group during the Track Record Period is set out below:

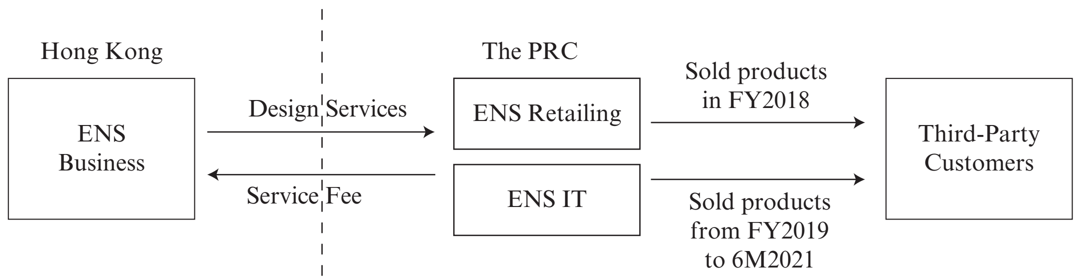


During the period from FY2018 to FY2019, the licensing fee amount incurred by Semk Licensing increased from approximately HK$28.6 million to HK$35.1 million, and the amount was approximately HK$44.5 million in FY2020 and HK$26.6 million during 6M2021.

The E-Commerce and other Business

During the Track Record Period, ENS Business provided design services for ENS Retailing in FY2018 and provided design service for ENS IT from FY2019 to 6M2021. Accordingly, ENS Business charged service fees to ENS Retailing in FY2018 and charged service fees to ENS IT from FY2019 to 6M2021 for its activities performed and value contribution to the whole operation (the "**Covered Transactions II**"). ENS Business was responsible for the design of products and brochures. ENS Retailing sold the products in FY2018 and ENS IT sold the products from FY2019 to 6M2021.

A diagram detailing the business and logistics flow of the e-commerce and other business arrangements within our Group during the Track Record Period is set out below:



The service fee amount that ENS Business charged to ENS Retailing in FY2018 was approximately HK$4.65 million and charged to ENS IT in FY2019 and FY2020 was approximately HK$7.22 million and HK$5.39 million, respectively. The service fee amount that ENS Business charged to ENS IT during 6M2021 was approximately HK$3.10 million.

Transfer Pricing Analysis

PricewaterhouseCoopers Consultants (Shenzhen) Limited ("**PwC Shenzhen**") has been engaged as an external tax consultant to support the management's review of our Group's transfer pricing arrangement in light of the risk that taxation authorities may challenge our Group's allocation of taxable income to entities of our Group.

Our Directors, with the advice from PwC Shenzhen, are of the view that both Semk Products and Semk Licensing make unique and valuable contributions to the IP development and promotion to third party customers in the PRC. Residual Profit Split Method ("**RPSM**") was selected as the most appropriate transfer pricing method to evaluate the arm's length nature for the Covered Transactions. Firstly, a benchmarking study was performed by PwC Shenzhen to determine the reasonable profit return on routine functions of Semk Products and Semk Licensing. Secondly, the remaining residual profit was allocated between Semk Products and Semk Licensing based on their value contributions to the IP development and promotion to third party customers in the PRC.

For e-commerce and other business, our Directors, with the advice from PwC Shenzhen, are of the view that ENS Business provided ENS Retailing and ENS IT with routine design services, whereas ENS Retailing and ENS IT dominated the transaction chain of our Group's e-commerce and other business and were responsible for performing the remaining routine and non-routine activities besides the design of products and brochures. Transactional Net Margin Method ("**TNMM**") was selected as the most appropriate transfer pricing method to evaluate the arm's length nature for the Covered Transactions II. A benchmarking study was performed by PwC Shenzhen to determine the reasonable profit return on routine functions of ENS Business. ENS Retailing and ENS IT as full-fledged entities therefor enjoy residual profit or assume losses in the e-commerce and other business.

Based on the above RPSM and TNMM, we have implemented the relevant transfer pricing policy since 14 March 2016 and 1 January 2018, respectively, and the weighted average profit allocation from FY2018 to 6M2021 was aligned with each party's value contribution. On this basis, PwC Shenzhen and our Directors are of the view that our Group has been in compliance with the relevant transfer pricing laws and regulations in both Hong Kong and the PRC during the Track Record Period. The relevant analysis was conducted based on the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations issued by Organisation for Economic Co-Operation and Development, taking into account the prevailing transfer pricing regulations in Hong Kong and the PRC.

The following measures are adopted to ensure ongoing compliance with the relevant transfer pricing laws and regulations in Hong Kong and the PRC:

(i) we should engage external tax consultant on transfer pricing matters annually. The most appropriate transfer pricing method and profit level indicator should be selected according to analysis prepared by the external tax consultant. We should plan the transfer pricing policy of the transactions through financial budgeting according to the result of the analysis;

(ii) training will be provided to our senior management relating to updates on relevant transfer pricing laws and regulations in the relevant jurisdictions;

(iii) our chief financial officer should review all reporting forms before submitting to the relevant tax authority;

(iv) the finance department will prepare segmental profit and loss account for PRC business and other business of Semk Products and for design business and others business of ENS Business, e.g. based on time cost quarterly;

(v) we optimise the supporting of functional profile, for character licensing business, e.g. file the supporting documents that Semk Products is responsible for IP development, promotion and marketing strategy formulation, and provide daily and close support to Semk Licensing for promotion and communication with third party customers in the PRC, e.g. contracts, correspondences, etc; for e-commerce and other business, e.g. file the supporting documents that ENS Business is responsible for the design of products and brochures, e.g. contracts, correspondences and acceptance of design, etc.;

(vi) our chief financial officer will make sure the profit arrangement is aligned with each party's value contribution; and

(vii) our chief financial officer will document and file relevant supportings of value contribution of each party for risk management, including but not limited to responsibilities planning, correspondences, performance and outcome assessment of relevant work, etc.

See "Risk factors — Taxation authorities could challenge our allocation of taxable income which could increase our consolidated tax liability" in this prospectus for further details of our Group's risks relating to transfer pricing.

GENERAL

Our Board of Directors consists of four executive Directors, two non-executive Directors and three independent non-executive Directors. The table sets forth certain information in respect of the members of our Board.

Directors

Name	Age	Month of joining our Group	Present position/title	Date of appointment as director	Roles and responsibilities	Relationship with other Directors and senior management members
Mr. HUI Ha Lam (許夏林)	48	December 2001	• Executive director • Chairman of the Board • Chief executive officer • Chairman of Nomination Committee • Member of Remuneration Committee	10 December 2020	Overall strategic planning and business development of our Group	None
Mr. KWOK Chun Kit (郭振傑)	48	August 2003	• Executive director • Chief operating officer	28 April 2021	Overall business operations and supervising branding and marketing operations of our Group	None
Mr. CHEUNG Chin Yiu (張展耀)	41	February 2011	• Executive director • General manager • Head of licensing operations	28 April 2021	Managing licensing operations of our Group	None
Mr. TSE Tsz Leong (謝子亮)	37	December 2016	• Executive director • Chief Financial Officer • Company secretary	28 April 2021	Financial reporting, internal control systems, investor relationship and corporate governance of our Group	None
Mr. WONG Yin Shun Vincent (王賢訊)	41	December 2016	• Non-executive director	28 April 2021	Overseeing management and strategic planning of our Group	None
Mr. CHEN Hongjiang (陳洪江)	40	October 2021	• Non-executive director	22 October 2021	Overseeing management and strategic planning of our Group	None
Ms. LEUNG Ping Fun Anita (梁丙焄)	57	December 2021	• Independent non-executive director • Chairperson of Remuneration Committee • Member of Audit Committee	20 December 2021	Providing independent judgement to our Board	None
Mr. SUNG Chi Keung (宋治強)	46	December 2021	• Independent non-executive director • Chairman of Audit Committee • Members of Nomination Committee and Remuneration Committee	20 December 2021	Providing independent judgement to our Board	None
Dr. CHAN Kai Yue Jason, *MH, JP* (陳繼宇)	47	December 2021	• Independent non-executive director • Members of Audit Committee and Nomination Committee	20 December 2021	Providing independent judgement to our Board	None

Executive Directors

Mr. HUI Ha Lam (許夏林), aged 48, is the founder of our Group and was appointed as a Director on 10 December 2020. He was re-designated as the executive director, chairman and chief executive officer on 28 April 2021 and he is primarily responsible for the overall strategic planning, and business development of our Group. Mr. Hui is also the chairman of the Nomination Committee and a member of the Remuneration Committee. Mr. Hui is also a director of 13 subsidiaries of our Group, namely, ENS Business, ENS Fashion, ENS Hangzhou, ENS Holdings, ENS IT, ENS Lishui, ENS Promotion, ENS Trend, Semk Hong Kong, Semk International, Semk Investment, Semk Licensing and Semk Products.

Mr. Hui has over 20 years of experience in design, marketing, licensing and branding industries. Prior to founding of our Group in late 2001, Mr. Hui worked as designer for Tint Concepts Limited and was responsible for both commercial and residential design projects from March 1998 to June 1999. From October 2000 to October 2001, Mr. Hui worked as a product designer for Kafutoy Industrial Co., Ltd and was responsible for the design and manufacturing of gifts and premium products to overseas markets. Since July 2020, Mr. Hui has been appointed as an independent non-executive director of Takbo Group Holdings Limited, a company listed on the GEM of the Stock Exchange (Stock Code: 8436).

Mr. Hui was a committee member of the Toy Advisory Committee of Hong Kong Trade Development Council from 2012 to 2016. Mr. Hui was appointed as the vice chairman of Asia Branding and Franchising Association in 2014. Between 2014 to 2018, Mr. Hui was also a committee member of the Design, Marketing & Licensing Services Advisory Committee of the Hong Kong Trade Development Council. Mr. Hui was appointed as a director to the 51st to 53rd Term Board of Directors of Yan Chai Hospital from 2018 to 2020 and a honorary director to the 54th Term Board of Directors of Yan Chai Hospital in 2021. Mr. Hui was a member of the executive committee of Group 19 (Hong Kong Toys Council) and Group 30 (Innovation and Creative Industries Council) of the Federation of Hong Kong Industries since 2018. He was a committee member of the Hong Kong Young Industrialist Council (Design and Technology Committee) and the Hong Kong Designers Association from 2018 to 2020. Since 2019, Mr. Hui has been appointed as a director of Hong Kong Design Centre. Since 2020, Mr. Hui has been a committee member of Advisory Committee of Licensing International Greater China and the Hong Kong Young Industrialists Council (PR & Marketing Committee).

Mr. Hui obtained a Bachelor of Arts degree majoring in Fine Arts from the Chinese University of Hong Kong in December 1997 and a master of arts in three dimensional design from the Kent Institute of Art & Design in September 2000.

Mr. KWOK Chun Kit (郭振傑), aged 48, was appointed as an executive Director on 28 April 2021. Mr. Kwok has over 17 years of experience in sales, marketing and licensing. Mr. Kwok joined our Group as sales and marketing director in August 2003 and was promoted to the role of chief operating officer in November 2016 and is primarily responsible for the overall business operations of our Group and managing relationship with licensees. Mr. Kwok is also a director of five subsidiaries of our Group, namely, ENS Business, Semk Hong Kong, Semk International, Semk Investment and Semk Products.

Prior to joining our Group, Mr. Kwok spent over four years in the banking industry. Mr. Kwok commenced his career as an officer in the corporate banking department of the China State Bank Limited from October 1996 to December 1997. He then worked as an officer of the property loans department of Bank of East Asia Limited from January 1998 to January 2001. Afterwards he worked as a personal financial executive in the sales and services department of Mevas Bank from January 2001 until July 2001.

Mr. Kwok graduated with a Bachelor of Arts in marketing in October 1995 from the Hong Kong Polytechnic University and a degree of master of science in finance in October 2002 from the City University of London through an approved course of higher study.

Mr. CHEUNG Chin Yiu (張展耀), aged 41, was appointed as an executive Director on 28 April 2021. Mr. Cheung has over 16 years of experience in licensing, marketing, event and promotion, business development, trademark registration and brand assurance. Mr. Cheung was our Group's senior licensing manager from February 2011 to April 2013. He then left our Group to work at Zan's Global Limited from June 2013 to July 2015 where he last held position was senior sales manager. He was mainly responsible for project management, identifying business partners for OEM projects and overseas distribution. Mr. Cheung rejoined our Group in July 2015 as senior licensing manager. He was promoted to head of licensing in January 2016 and licensing director and general manager in March 2017. He is mainly responsible for managing licensing operations, handling merchandise and event and promotion business in Hong Kong, China and overseas.

Prior to joining our Group in 2011, Mr. Cheung worked at Animation International Limited from October 2004 to June 2008 where he last held the position as senior licensing executive. He was mainly responsible for licensing and marketing, coordinating event and promotions. Between January 2009 to January 2011, Mr. Cheung worked at Toei Animation Enterprises Limited where he last held the position was senior licensing executive. He was mainly responsible for handling merchandise and promotional character licensing business in Hong Kong and provide administrative support to the merchandising department in relation to Japanese animation characters.

Mr. Cheung graduated with a diploma in management studies from the School of Professional and Continuing Education, the University of Hong Kong in December 2003 and a bachelor degree of management studies from the University of Hong Kong in December 2009.

Mr. TSE Tsz Leong (謝子亮), aged 37, was appointed as an executive Director and company secretary of our Group on 28 April 2021. Mr. Tse joined our Group as financial controller in December 2016 and was promoted to the role of chief financial officer in January 2020. He is primarily responsible for our Group's financial reporting, internal control systems, investor relationship and assisting the Board on corporate governance matters. Mr. Tse is also a director of a subsidiary of our Group, namely, ENS Business. He has more than 14 years of experience in auditing, accounting and finance. From September 2006 to April 2015, Mr. Tse worked at PricewaterhouseCoopers and his last held position was senior manager in the assurance practice. Between April 2015 to November 2016, Mr. Tse worked at Sdcic Group Limited as the financial controller.

Mr. Tse graduated with a bachelor degree in business administration, majoring in professional accountancy from the Chinese University of Hong Kong in December 2006. He has also been a member of the Hong Kong Institute of Certified Public Accountants since January 2010.

Non-executive Directors

Mr. WONG Yin Shun Vincent (王賢訊), aged 41, was appointed as a non-executive Director on 28 April 2021 and he is mainly responsible for overseeing management and strategic planning of our Group. Mr. Wong is also a director of Semk International. From 2005 to 2012, Mr. Wong founded For Creative Explorer Limited (which was subsequently renamed as For's Company Limited) which principally engaged in the design and sales of branded T-shirts. Between 2008 to 2012, Mr. Wong served as assistant vice-president in business development in Wong's Industrial (Holdings) Limited, a wholly-owned subsidiary of Wong's International. Since 2012, Mr. Wong and his wife founded LIME Cultural Limited (previously named as Troy Cultural Limited) which principally engaged in the publishing of children's novels. Since 2016, he served as a marketing consultant at Wong's Electronics, a wholly-owned subsidiary of Wong's International. Mr. Wong is also appointed as the chairman of the board of directors of Yan Chai Hospital in 2019.

Mr. Wong graduated with a Bachelor of Arts in Social Sciences at the University of Southern California in December 2004. In January 2009, he was awarded a postgraduate certificate in marketing by Napier University in Edinburgh which was a long distance learning course. In November 2012, he obtained a Master of Science degree in global finance from the Hong Kong University of Science and Technology and the New York University.

Mr. CHEN Hongjiang (陳洪江), aged 40, was appointed as a non-executive Director on 22 October 2021 and he is mainly responsible for overseeing management and strategic planning of our Group.

Mr. Chen worked at Konka Group Co., Ltd from July 2004 to March 2005. Mr. Chen joined Overseas Chinese Town Holdings Company* (華僑城集團公司) ("**OCT Group**") (currently known as Overseas Chinese Town Holdings Limited* (華僑城集團有限公司)) in March 2005 as a business assistant of the strategic development department. Mr. Chen joined Overseas Chinese Town (HK) Company Limited ("**OCT (HK)**") in March 2010, initially as a senior manager of the strategic development department and was promoted as a deputy director and director of the investment development department in February 2012 and January 2013, respectively. In February 2014, he was appointed as a director of OCT (HK)'s general manager's office. In March 2016, Mr. Chen was appointed as the deputy general manager of Xi'an Overseas Chinese Town Real Estate Limited* (西安華僑城置地有限公司) (currently known as Xi'an Huayi Real Estate Limited* (西安華宜置地有限公司)) ("**OCT (Xi'an)**"). In August 2017, Mr. Chen was appointed as a deputy director of the strategic development department of OCT Limited. Meanwhile, in March 2018, he was appointed as a deputy director of the investment management department.

Mr. Chen is holding various positions in the following companies:

Name of Company	Position(s) held	Date of appointment
OCT (HK)	Deputy general manager	May 2018
OCT (Asia)	Vice president	January 2019
Shenzhen OCT Huaxin Equity Investment Management Limited* (深圳市華僑城華鑫股權投資管理有限公司)	Director and general manager	July 2020
Overseas Chinese Town (Shanghai) Land Company Limited* (華僑城(上海)置地有限公司)	Director	July 2020

Name of Company	Position(s) held	Date of appointment
Shenzhen Huayou Investment Co., Ltd.* (深圳市華友投資有限公司)	Chairman of the board and general manager	July 2020
OCT (Changshu) Industry Development Co., Ltd.* (華僑城(常熟)實業發展有限公司)	Director	July 2020
Guangdong EPropulsion Technology Co., Ltd.* (廣東逸動科技有限公司)	Director	February 2021

Mr. Chen graduated with a bachelor degree in economics from Harbin Institute of Technology in July 2004 and a master degree in business administration from Nankai University in June 2011 through part-time study.

Independent non-executive Directors

Ms. LEUNG Ping Fun Anita (梁丙焄), aged 57, was appointed as an independent non-executive director of our Company on 20 December 2021 and is primarily responsible for providing independent judgement to our Board. Ms. Leung is also the chairperson of the Remuneration Committee and a member of our Audit Committee.

Ms. Leung was qualified as a solicitor of Hong Kong in September 1989, and was admitted in England and Wales in 1991, Australian Capital Territory in 1991 and Singapore in 1995. Ms. Leung has extensive experience in the legal field and has worked at Baker & McKenzie from 1987 to 2008 where her last position was partner. Between 2008 and 2015, she was a partner at Jones Day and she is currently a consultant at David Lo & Partners. Ms. Leung graduated with a Bachelor Degree in Laws and a Postgraduate Certificate in Laws from the University of Hong Kong in 1986 and 1987.

Ms. Leung currently serves as a member of the Hong Kong Housing Society and has been sitting on its Audit Committee since September 2018. She has been appointed by the Chief Justice as a member of the Solicitors Disciplinary Tribunal Panel and held the position of Deputy Tribunal Convenor between May 2014 and May 2017. Ms. Leung is a member of each of the Inquiry Panel of the Preliminary Investigation Committee of the Hong Kong Institute of Clinical Psychologists, Intellectual Property Committee and Community Relations Committee of the Law Society of Hong Kong. She also serves as a Council Member of the Licensing Executives Society China, Hong Kong Sub-Chapter, after acting as its Chairman from December 2012 to December 2016. Ms. Leung has also been serving as a member of the Business of IP Asia Forum Steering Committee of the Hong Kong Trade Development Council since 2013.

Previously, Ms. Leung was a member of the Design, Marketing & Licensing Services Advisory Committee of the Hong Kong Trade Development Council from April 2009 to March 2013 and a member of its Professional Services Advisory Committee from April 2013 to March 2017. She also served on the Board of Governors of the American Chamber of Commerce Hong Kong (the "**Board of American Chamber of Commerce**") from January 2008 to December 2013 and the Board of American Chamber of Commerce Executive Committee from January 2010 to December 2013.

Mr. SUNG Chi Keung (宋治強), aged 46, was appointed as an independent non- executive director of our Company on 20 December 2021 and is primarily responsible for providing independent judgement to our Board. Mr. Sung is also the chairman of our Audit Committee and members of the Nomination Committee and the Remuneration Committee.

Mr. Sung has extensive experience in financial management, accounting taxation, auditing and corporate finance and has previously worked at KPMG, PricewaterhouseCoopers and Deloitte & Touche Corporate Finance Ltd. From December 2019, he has been the chief financial officer of Vershold Global Limited. From August 2004 to June 2013, he worked for Asian Citrus Holdings Limited, a company dually listed on AIM of London Stock Exchange (Stock Code: ACHL) and the Stock Exchange (Stock Code: 0073) where his last held positions were finance director, executive director and company secretary. From April 2015 to October 2019 and May 2016 to October 2019, Mr. Sung was the chief financial officer and company secretary, respectively, of China Chuanglian Education Group Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 2371). From August 2013 to March 2015, Mr. Sung was the chief financial officer and company secretary of China Green (Holdings) Limited (formerly known as China Culiangwang Beverages Holdings Limited), a company listed on the Main Board of the Stock Exchange (Stock Code: 904). Since September 2017, Mr. Sung has been appointed as an independent non-executive of Takbo Group Holdings Limited, a company listed on the GEM of the Stock Exchange (Stock Code: 8436).

Mr. Sung obtained Bachelor degree in business administration, majoring in Professional Accountancy, from the Chinese University of Hong Kong in December 1997 and a Master of Corporate Finance from the Hong Kong Polytechnic University in December 2006. He was admitted as an associate member of Hong Kong Society of Accountants (currently known as Hong Kong Institute of Certified Public Accountants ("**HKICPA**")) in February 2002 and was advanced to be a fellow member of HKICPA in May 2019. He was also admitted as a fellow member of the Association of Chartered Certified Accountants in December 2007.

Dr. CHAN Kai Yue Jason, ***MH, JP*** **(陳繼宇)**, aged 47, was appointed as an independent non-executive director of our Company on 20 December 2021 and is primarily responsible for providing independent judgement to our Board. Dr. Chan is also members of our Audit Committee and Nomination Committee.

Dr. Chan has extensive experience in the education and the information technology industries. Between 2000 to 2003, he worked at The Hong Kong Institute of Education where his last position was part-time research assistant. Between 2002 to 2005, he worked at The Open University of Hong Kong where his last position was full-time research associate. Between 2006 to 2007, he worked at Bauhinia Foundation Research Centre Ltd. where his last position was Manager (Research). Since 2008, he worked at College of Professional and Education Limited of the Hong Kong Polytechnic University and he currently holds the position of Head of Information Technology.

He obtained a Bachelor of Arts in Public and Social Administration with First Class Honours in November 1998 and a Master of Science in Computing at City University of Hong Kong in July 2004. He also obtained a Master of Educational Technology at The University of British Columbia in May 2005, Stanford Certified Project Manager in Stanford Center for Professional Development in May 2007 and Doctor of Education at The University of Bristol in August 2010.

Dr. Chan has been appointed in several public service roles, including serving as a lay member of the Panel of Solicitors' Disciplinary Tribunal and a member of Child Development Fund Steering Committee, Quality Education Fund Dissemination and Promotion Sub-committee, Advisory Committee of Innovation and Technology Venture Fund, Entrepreneurship Committee Advisory Group of Hong Kong Cyberport Management Company Limited and the Board of Governors of the Prince Philip Dental Hospital. He also served as a member of Enterprise Support Scheme Assessment Panel under the Innovation and Technology Fund, Transport Tribunals' Panel, Education Development Fund Advisory Committee and Consumer Council. In June 2017, Dr. Chan was appointed as Justice of the Peace of Hong Kong. In July 2021, Dr. Chan was awarded the Medal of Honour by the Hong Kong Special Administrative Region. Since April 2019, Dr. Chan has been appointed as an independent non-executive director of Bamboos Health Care Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 2293).

Other disclosure pursuant to Rule 13.51(2) of the Listing Rules

Save as disclosed above, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there are no other matters relating to the appointment of Directors that need to be brought to the attention of the Shareholders, nor is there any information relating to our Directors that is required to be disclosed pursuant to paragraph (a) to (v) of Rule 13.51(2) of the Listing Rules, including matters relating to directorship held by our Directors in any public companies of which the securities are listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this Prospectus. As at the Latest Practicable Date, save as the interests of each of Mr. Hui in the Shares which are disclosed in "Substantial Shareholders" in this Prospectus, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

SENIOR MANAGEMENT

The table below shows certain information in respect of the senior management of our Company.

Name	Age	Month and year of joining our Group	Position	Roles and Responsibilities	Relationship with other Directors and senior management
Mr. Chan Wa Pan (陳華品)	36	February 2012	Deputy general manager and deputy head of licensing operations	Handling all licensing, event and promotion related matters for our Group	None
Ms. Tam Nga Chi (譚雅芝)	42	October 2003	Head of Design and Art director	Responsible for brand management of our Group, developing style guide and approving licensees' designs and products	None
Ms. Wu Ying (吳瑩)	34	September 2013	Deputy General Manager of e-commerce operations	Strategic planning and budget planning of e-commerce business and monitoring e-commerce operations	None

Mr. CHAN Wa Pan (陳華品), aged 36, joined our Group in February 2012 and he is our deputy general manager and deputy head of licensing operations of our Group. Mr. Chan is primarily responsible for handling all licensing, event and promotion related matters for our Group. Mr. Chan has accumulated over 13 years in the licensing industry. From July 2006 to February 2012, Mr. Chan worked with Animation International Limited and his last held position was event manager where he was primarily responsible for handling licensing, merchandising and promotion matters and events.

Mr. Chan graduated from Ma Kam Ming Charitable Foundation Ma Chan Duen Hey Memorial College in 2005.

Ms. TAM Nga Chi (譚雅芝), aged 42, was appointed as the art director of our Group in January 2015. Ms. Tam is mainly responsible for managing our Group's brand, developing style guide and assisting the licensing department of our Group in approving the design works and products from our Group's licensees. Ms. Tam has over 18 years of experience in product design and development. Ms. Tam joined our Group as a graphic designer in October 2003 and was promoted to the role of senior designer, and subsequently to the role of assistant creative director in October 2004 and September 2009, respectively. Prior to joining our Group, Ms. Tam was a designer at Solution Marketing Services Limited from July 2001 to September 2003 where she was primarily responsible for advertising and promotional design.

Ms. Tam graduated with a Diploma in Digital Media Studies from Hong Kong Institute of Vocational Education in July 2001.

Ms. WU Ying (吳瑩), aged 34, has been the deputy general manager of e-commerce operations of our Group since March 2018. Ms. Wu is primarily responsible for strategic planning and budget planning of e-commerce business and monitoring e-commerce operations. Ms. Wu has over 8 years of experience in the e-commerce business industry. Ms. Wu joined our Group in September 2013 and had held various positions at ENS IT. Ms. Wu was subsequently promoted to the role of director of e-commerce in December 2016 and deputy general manager of e-commerce in March 2018. Prior to joining our Group, Ms. Wu joined Zhejiang University of Mechanical Engineering Training Centre* (浙江大學工程訓練中心) in September 2010. Between February 2012 to August 2013, Ms. Wu was the e-commerce supervisor at Zhejiang Senyu Pharmaceutical Co., Ltd. where she was primarily responsible for operating the Sen Shan official flagship store* (森山官方旗艦店) and managing the e-commerce department.

Ms. Wu graduated with a Bachelor Degree in electronic and information engineering from Tianjin University of Technology and Education in July 2010.

COMPANY SECRETARY

Mr. TSE Tsz Leong (謝子亮), aged 37, is the executive Director, chief financial officer and the company secretary of our Company. He was appointed as company secretary on 28 April 2021. For further biographic details of Mr. Tse, see "Directors" in this section.

BOARD COMMITTEES

Audit committee

We have established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules as well as paragraph C.3.3 and C.3.7 of the Corporate Governance Code.

The Audit Committee comprises three members, namely Mr. Sung Chi Keung, Ms. Leung Ping Fun Anita and Dr. Chan Kai Yue Jason, *MH, JP*, all of whom are independent non-executive Directors. The chairperson of the Audit Committee is Mr. Sung Chi Keung.

The primary responsibilities of the Audit Committee include, among others, (i) providing an independent view of the effectiveness of the financial reporting process, internal control, compliance and risk management systems of our Group, (ii) nominating and monitoring the work of external auditors; (iii) overseeing the audit process and performing other duties and responsibilities as assigned by the Board; (iv) developing and reviewing our Group's policies and practices on corporate governance with legal and regulatory requirements and requirements under the Listing Rules; and (v) developing, reviewing and monitoring the code of conduct applicable to our Directors and employees.

Remuneration Committee

The Company established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules as well as paragraph B.1.2 of the Corporate Governance Code.

The Remuneration Committee comprises three members, namely Ms. Leung Ping Fun Anita, Mr. Hui Ha Lam and Mr. Sung Chi Keung, out of whom Ms. Leung Ping Fun Anita and Mr. Sung Chi Keung are independent non-executive Directors whilst Mr. Hui Ha Lam is an executive Director. The chairperson of the Remuneration Committee is Ms. Leung Ping Fun Anita.

The primary responsibilities of the Remuneration Committee include, among others, (i) making recommendations to the Board on our Group's policy and structure for all remuneration of Directors and senior management members and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives resolved by the Board from time to time; and (iii) making recommendations to the Board on the terms of specific remuneration packages, bonuses and other forms of compensation payable to our Directors and senior management members.

Nomination Committee

The Company established the Nomination Committee with written terms of reference in line with paragraph A.5.2 of the Corporate Governance Code.

The Nomination Committee comprises three members, namely Mr. Hui Ha Lam, Mr. Sung Chi Keung and Dr. Chan Kai Yue Jason, *MH, JP*, out of whom Mr. Hui is an executive Director while Mr. Sung Chi Keung and Dr. Chan Kai Yue Jason, *MH, JP* are independent non-executive Directors. The chairman of our Nomination Committee is Mr. Hui Ha Lam.

The primarily responsibilities of the Nomination Committee include, among others, (i) reviewing the structure, size and composition of the Board; (ii) making recommendations to the Board regarding candidates to fill vacancies on the Board and/or in senior management team; (iii) assessing the independence of independent non-executive Directors; and (iv) overseeing the process for evaluating the performance of the Board.

COMPENSATION OF OUR DIRECTORS AND SENIOR MANAGEMENT TEAM

Directors

For the three years ended 31 December 2020 and six months ended 30 June 2021, the highest-paid individuals (including Directors) include four Directors and one individual. The aggregate amount of remuneration which comprise salaries, allowances and benefits in kind (inclusive of housing benefit), employer's contribution to pension schemes and bonuses paid by our Company to our Directors (in their role as senior management and employee before their appointment as directors respectively) amounted to approximately HK$5.2 million, HK$5.5 million, HK$5.0 million and HK$3.2million, respectively. The remuneration received by the remaining one, one, one and one individual was approximately HK$1.0 million, HK$1.0 million, HK$1.0 million and HK$0.7 million, respectively.

During the Track Record Period, no remuneration was paid by our Company to, or receivable by, our Directors or the five largest-paid individuals (i) as an inducement to join or upon joining our Company or (ii) for loss of any office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. In addition, none of our Directors had waived any remuneration during the Track Record Period. Save as disclosed hereinabove, no other payments have been paid, or are payable, by our Company or any of its subsidiaries to our Directors or the five highest-paid individuals during the Track Record Period.

Under our Company's arrangements currently in force, the aggregate remuneration (including fees, salaries, allowances (inclusive of housing benefit), pension-defined contribution plans and other benefits in kind (where applicable) of our Directors (including independent non-executive Directors in their capacity as Directors), excluding any discretionary bonuses, for the financial year ending 31 December 2021 are estimated to be approximately HK$4.8 million.

See Accountants' Report in Appendix I to this Prospectus for further details of remuneration paid to our Directors and the five highest paid individuals during the Track Record Period.

REMUNERATION POLICY

Remunerations of our Directors and members of senior management team are determined with reference to the salaries paid by comparable companies, economic indicators such as inflation rates, overall profitability of our Group as well as the individuals' respective experience, integrity, performance and level of commitment. Our Company also reimburses our Directors and senior management members for expenses which are necessarily and reasonably incurred for providing services to or executing their functions in relation to the operations of our Company. Our Board reviews on a regular basis, and determine the remuneration and compensation packages (including incentive plans) of our Directors and senior management members, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of our Directors and senior management team, as well as the overall performance of our Company.

SHARE OPTION SCHEME

Our Group has conditionally adopted a Share Option Scheme pursuant to which eligible participants may be granted options to subscribe for Shares as recognition and acknowledgement, in the form of incentives or rewards, of their contributions made to our Group and any entity in which any member of our Group holds any equity interests. Our Directors believe that the implementation of the Share Option Scheme enables our Group to, not just motivate those eligible participants under the said scheme to optimise their performance efficiency for the benefit of our Group, but also recruit and retain high caliber executives and employees in pursuance of the long-term growth and development. The principal terms of the Share Option Scheme are summarised under "Appendix IV — D. Other Information — 15. Share Option Scheme" to this Prospectus.

CORPORATE GOVERNANCE

Our Company's corporate governance practices are based on principles and code provisions as set out in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules (the "**Corporate Governance Code**"). Except for the deviation from paragraph A.2.1 of the Corporate Governance Code as stated below, our Company's corporate governance practices have complied with the Corporate Governance Code.

Paragraph A.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Hui Ha Lam is the chairman of our Board and the chief executive officer of our Company. Considering that Mr. Hui has been operating and managing our Group since its foundation, our Board believes that it is in the best interest of our Group to have Mr. Hui taking up both roles for effective management and business development. Therefore, our Board considers that the deviation from paragraph A.2.1 of the Corporate Governance Code is appropriate in such circumstance.

The terms of reference of our Board with respect to its corporate governance functions include, among others, (i) developing and reviewing our Company's policies and practices on corporate governance and making recommendations to our Board; (ii) reviewing and monitoring the training and continuing professional development of Directors and members of senior management; (iii) reviewing and monitoring our Company's policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to our Directors and employees; and (v) reviewing our Company's compliance with the code and disclosure requirements as set out in the corporate governance report.

Our Directors recognise the importance of incorporating elements of good corporate governance in management and internal control procedures so as to achieve effective accountability. Our Company has established the Audit Committee in compliance with the Listing Rules as well as the Corporate Governance Code, and accordingly appointed a qualified accountant to oversee our Company's financial reporting procedures and internal control measures for the purpose of compliance with the relevant regulatory provisions.

Our Board has adopted a board diversity policy since 15 December 2021 and will review its composition on a yearly basis. Our Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving a sustainable and balanced development, our Company sees increasing diversity at our Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on our Board. Our Company commits to selecting the best person for the role. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board. The nomination committee will review and monitor the implementation on our Board diversity policy periodically.

COMPLIANCE ADVISER

Pursuant to Rule 3A.19 of the Listing Rules, our Company have appointed China Everbright Capital Limited as the compliance adviser who will provide our Group with guidance and advice as to compliance with the requirements under the Listing Rules as well as applicable Hong Kong laws. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company, among others, under the following circumstances:

(1) the publication of any regulatory announcement, circular or financial report;

(2) where a transaction, which might constitute notifiable or connected transaction, is contemplated, including share issues and share repurchases;

(3) where our Company proposed to use the proceeds of the Global Offering in a manner different from that detailed in this Prospectus or where our Company's business activities, developments or results of operation of our Group deviate from any forecast, estimate or other information in this Prospectus; and

(4) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares or any other matters under Rule 13.10 of the Listing Rules.

The term of the foregoing appointment will commence on the Listing Date and, subject to extension by mutual agreement, expire on the date of despatch of annual report in respect of our Company's financial results for the first full financial year commencing after the Listing Date.

Immediately following completion of the Global Offering, the Share Subdivision and the Capitalisation Issue (without taking into account any Share which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme), Semk Global will be entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company. Semk Global is wholly-owned by Semk Holdings which in turn is wholly-owned by Mr. Hui. As such, Mr. Hui, Semk Holdings and Semk Global are together a group of Controlling Shareholders.

MANUFACTURING FACILITIES HELD BY MR. HUI

ENS Toys, a indirectly wholly-owned company of Mr. Hui, principally engaging in manufacturing business in the PRC. The manufacturing business of ENS Toys was a family-owned business founded by Mr. Hui's parents and was subsequently taken up by Mr. Hui. To the best of the knowledge of our Directors upon making reasonable due diligence inquires, based on ENS Toys' audited financial statements for the three years ended 31 December 2020 and unaudited management accounts for the six months ended 30 June 2021, the revenue, net profit and operating cash flows of ENS Toys are as follows:

	For the year ended 31 December			For the six months ended
	2018	**2019**	**2020**	**30 June 2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	61,168	68,548	57,750	29,106
Net profit	850	2,775	2,470	1,228
Net cash generated from/ (used in) operating activities	3,004	(1,116)	2,285	(2,801)

The net profit margin of ENS Toys amounted to approximately 1.4%, 4.0%, 4.3% and 4.2% during the Track Record Period, respectively. As informed by ENS Toys, the relatively lower net profit margin of ENS Toys for FY2018 was primarily attributable to:

(i) the lower proportion of sales of export products in FY2018 as compared to that in FY2019 and FY2020 and the sales of which typically borne a higher gross profit margin. Through ENS Toys' strategy to strengthen its effort to export product to overseas customers since FY2019, the sales of export products increased and contributed approximately 4.1%, 16.7% and 27.6% of the total revenue of the ENS Toys for FY2018, FY2019 and FY2020, respectively. ENS Toys primarily exported products to overseas customers through an online platform, which provides import and export business process outsourcing service in the PRC. During the three years ended 31 December 2020, ENS Toys' export sales through such platform amounted to approximately RMB1.6 million, RMB10.0 million and RMB15.4 million, representing 2.6%, 14.5% and 26.7% of its total revenue, respectively. The gross profit margin for the sales of export products through such platform in FY2018, FY2019 and FY2020 was approximately 37.1%, 42.0% and 36.0%, respectively, while the gross profit margin for the sales of domestic products among ENS Toys' five largest independent customers was approximately 5.1%, 7.7% and 9.7%, respectively, for the corresponding period. This difference in the gross profit margin for export and domestic customers is also confirmed by Frost & Sullivan which advised that products exported to overseas, especially toys and boutique products, generally bear a higher gross profit margin than that for the products sold domestically. Such higher gross profit margin primarily due to the higher selling price of toys sold in overseas market as compared to that for the domestic market; and

(ii) the gross profit margin of ENS Toys increased from approximately 8.6% for FY2018 to approximately 15.4% for FY2019 while the operating cost margin (i.e. the operating expenses divided by the revenue) increased from approximately 7.4% for FY2018 to approximately 11.4% for FY2019. Therefore, the increase in the gross profit for ENS Toys for FY2019 outweighed the increase in the operating expenses.

ENS Toys was one of our top five suppliers and sub-leased property to our Group as a lessor during the Track Record Period. See "Independence from the Controlling Shareholders — Operational Independence" in this section for further details.

Unless purchase orders are placed by either our Group or our licensees, ENS Toys is not allowed to manufacture B.Duck Family Character-themed merchandise. Further, ENS Toys is not allowed to sell B.Duck Family Character-themed merchandise manufactured for us or our licensees to third party customers.

As our Group does not and does not expect in the foreseeable future to engage in the manufacturing business, our Directors consider that business operated by ENS Toys is separate and distinct from our business and accordingly, Mr. Hui's investment in ENS Toys does not have any actual nor potential competing interests with our Group.

As at the Latest Practicable Date, none of our Controlling Shareholders, our Directors and their respective close associates had any interest in any business which competes or is likely to compete, either directly or indirectly with our Company's business which would require disclosure under Rule 8.10 of the Listing Rules.

To the best of the knowledge of our Directors upon making reasonable due diligence inquires, and as separately confirmed by Mr. Hui, our Directors confirm that ENS Toys did not have any material non-compliance or litigations during the Track Record Period and up to the Latest Practicable Date.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on our businesses independently of, and does not place undue reliance on, our Controlling Shareholders and their respective close associates (other than members of our Group) taking into account the following factors:

Financial independence

Our Group has an independent financial system and makes financial decisions according to our business needs. Our Group has sufficient capital to operate the business independently, and has adequate internal resources to support our day-to-day operations.

During the Track Record Period and up to the Latest Practicable Date, our Group had relied principally on shareholder's equity (including proceeds from pre-IPO investments), cash generated from operations and bank borrowings to finance our business. Upon completion of the Global Offering, our Directors expect that our future operations will be financed mainly by the net proceeds of the Global Offering, internally generated funds and borrowings from financial institutions.

All the amounts due to or from our Controlling Shareholders and their respective close associates (other than members of our Group) and not arising out of the ordinary course of business will be fully settled or waived and there will be no outstanding loans to or from our Controlling Shareholders and their respective close associates prior to the Listing. The loan guarantees from our Controlling Shareholders and their respective close associates (other than members of our Group) will be released upon the Listing.

Having considered that our future operations are not expected to be financed by our Controlling Shareholders, the amounts due to or from our Controlling Shareholders and their respective close associates (other than members of our Group) and not arising out of the ordinary course of business will be fully settled or waived prior to the Listing and the loan guarantees from the Controlling Shareholders and their respective close associates (other than members of our Group) will be released upon the Listing, our Directors consider that our Group is financially independent of our Controlling Shareholders.

Operational independence

Our Group holds all of the IP rights necessary to our business operations.

During the Track Record Period, our Group purchased general merchandise (including but not limited to apparel and toys) from ENS Toys, which is indirectly wholly-owned by Mr. Hui. Our Directors consider that our Group does not rely on ENS Toys since (i) our Group's annual purchase amount attributable to ENS Toys decreased from HK$50.8 million for FY2018 to HK$26.4 million for FY2020, representing a decrease of 48.0%; (ii) the percentage of annual purchase amount attributable to ENS Toys to total purchase amount of our Group decreased from 93.4% for FY2018 to 49.3% for FY2020; (iii) ENS Toys supplied products to our Group and other Independent Third Parties and the revenue of ENS Toys generated from our Group represented approximately 70.2%, 65.4%, 40.8% and 59.0% of its total revenue for the three years ended 31 December 2020 and the six months ended 30 June 2021; and (iv) we established business relationship ranging from one to three years with our remaining five largest suppliers (excluding ENS Toys) and as at the Latest Practicable Date, we cooperated with more than 100 OEM suppliers which we believe can satisfy the demand for our products.

Despite the continuation of such continuing connected transactions under the Merchandise Supply Framework Agreement, we will be able to operate independently from ENS Toys for the following reasons:

(i) we have access to readily available alternative independent suppliers which can readily supply general merchandise at similar quality and prices and comparable delivery schedule;

(ii) before entering into any transactions with ENS Toys, our Group will obtain quotes from at least two Independent Third Parties which provide products with same or similar specifications. Our finance department will review and compare the quotes from Independent Third Parties with the quotes from ENS Toys when determining the supplier so as to ensure that the material terms, including prices, credit period, delivery schedule, offered by ENS Toys to our Group is fair and reasonable and is determined on normal commercial terms or on terms no less favourable to our Group than the terms available from Independent Third Parties. In the event that after the internal assessment, Independent Third Parties offer better terms in totality as compared to the ones offered by ENS Toys, our Group will order from Independent Third Parties;

(iii) since there is no minimum purchase amount stipulated in the Merchandise Supply Framework Agreement nor are we bound to purchase merchandise from ENS Toys, in the event that same or similar general merchandise provided by any Independent Third Parties are better than those provided by ENS Toys, or general merchandise provided by ENS Toys cannot satisfy the needs of our Group in any respect (including quantity or quality), our Group will procure from Independent Third Parties;

(iv) the Merchandise Supply Framework Agreement provides that ENS Toys should use commercially reasonable endeavours to ensure the material terms, including prices, credit period, delivery schedule, offered by ENS Toys to our Group are fair and reasonable and are determined on normal commercial terms or on terms no less favourable to our Group than the terms available from other independent third party suppliers;

(v) our Directors are of the view that such continuing connected transactions have been entered into during the ordinary and usual course of business of our Group, that such transactions have been negotiated on arm's length basis, on normal commercial terms, and are fair and reasonable and in the interests of the Shareholders as a whole; and

(vi) ENS Toys which has been our supplier of merchandise since 2009 and is controlled by Mr. Hui and therefore it is unlikely that our relationship with ENS Toys will materially adversely change or terminate. Hence, our Directors are of the view that it would not be commercially sensible to discontinue business relationship with ENS Toys.

Based on the above, the Directors and the Sole Sponsor are of the view that all material terms of the Merchandise Supply Framework Agreement are on a normal commercial basis and comparable to those offered by alternative independent suppliers.

Despite there was a decrease in purchase amount by our Group from ENS Toys in the year ended 31 December 2020 compared to the preceding year, which reflected (i) the adoption of a more reserved merchandise procurement policy (in terms of both volume and type of merchandise) with a view to minimise the risk of obsolete stock in contemplation of a decrease in market demand due to the outbreak of COVID-19; and (ii) our Group has been diversifying our supplier network, the Directors are of the view that there will be increase in demand for merchandise with our B.Duck Family Characters during the three years ending 31 December 2023 given the potential rebounding of the COVID-19 and the anticipated rapid growth in market size of e-commerce market of licensed goods (by GMV) in the PRC. In line with the anticipated rapid growth, the purchase amount by our Group from ENS Toys for the six months ended 30 June 2021 amounted to approximately HK$20.6 million as compared to approximately HK$26.4 million for the year ended 31 December 2020. As such, it is expected that the maximum annual amount of purchases by our Group from ENS Toys under the Merchandise Supply Framework Agreement will increase in each of the three years ending 31 December 2023 as compared to the purchase amount in year ended 31 December 2020. Further, based on the average annual amount of purchases from ENS Toys of approximately HK$42.7 million for the three years ended 31 December 2020 and the average percentage of total purchase amount of approximately 64.9% for the three years ended 31 December 2020 and taking into account of the purchase amount for the six months ended 30 June 2021 of approximately HK$20.6 million, it is estimated that the maximum annual amount of purchases by our Group from ENS Toys under the Merchandise Supply Framework Agreement will be HK$40 million in the year ending 31 December 2021. The maximum annual amount of purchases by our Group from ENS Toys under the Merchandise Supply Framework Agreement is expected to increase at a rate of approximately 13.1%, representing the CAGR of the market size of e-commerce market of licensed goods (by GMV) in the PRC, in the two years ending 31 December 2023. It is estimated that approximately 60% of our Group's total cost of inventories sold expected to be attributable to ENS Toys for the three years ending 31 December 2023.

Further, ENS Toys sub-leased a property in the PRC with an area of approximately 168 sq.m. to our Group which was used as temporary storage during the Track Record Period. Our Group also rent properties from ISA Global and Kafutoy Industrial with area of approximately 2,010 sq. ft. and 4,437 sq. ft., respectively, which were used as warehouses during the Track Record Period. ISA Global and Kafutoy Industrial are Mr. Hui's associates since (i) ISA Global, is owned as to 60% by Mr. Hui, and 40% by Ms. Lam Ngan Shan, the spouse of Mr. Hui; (ii) Kafutoy Industrial, is owned as to 50% by Mr. Hui Pak Shun and 50% by Ms. Ng Pui Ching, both being parents of Mr. Hui. ISA Global and Kafutoy Industrial are both investment holding companies. Our Directors are of the view that, if such needs arise, we would have no practical difficulties in relocating to alternative premise held by independent landlords at comparable rental rates.

Based on the above, our Directors are of the view that our Group is capable of managing our business independently from our Controlling Shareholders and their respective close associates.

As ENS Toys is wholly-owned by Mr. Hui, our executive Director, chairman, chief executive officer and Controlling Shareholder, it is considered as a connected person of our Group under Rule 14A.12(1)(c) of the Listing Rules and upon Listing, the abovementioned transactions between our Group and ENS Toys will be considered as connected transactions. See "Connected Transactions" section in this Prospectus for further details.

Save as the transactions disclosed in "Connected Transactions" and the related parties transactions as set forth in note 29 to the Accountants' Report as set out in Appendix I to this Prospectus, there has not been and will not be any sharing of resources between our Group and ENS Toys during Track Record Period and going forward and there has not been any expenses or costs of our Group for the Track Record Period which were borne by ENS Toys or other entities held by the Shareholders, Directors or senior management of our Company or our subsidiaries, without recharging to our Group or vice versa.

Management independence

As at the Latest Practicable Date, our Board consisted of nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors.

Although Mr. Hui is an executive Director and also a Controlling Shareholder, our management and operational decisions are made by all our executive Directors and senior management, most of whom have served our Group for a long time and all of whom have substantial experience in the industry in which we are engaged and/or in their respective fields of expertise. The balance of power and authority is ensured by the operation of our senior management and our Board. See "Directors and Senior Management" in this Prospectus for biographical details of our Directors and senior management.

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among others, that he/she must act for the benefit and in the best interests of our Company and not allow any conflict between his/her duties as a Director and his/her personal interests. In addition, we believe that our independent non-executive Directors can bring independent judgement to the decision-making process of our Board. See paragraph headed "Corporate governance" in this section below for further details. Based on the above, our Directors are satisfied that our Board as a whole, together with our senior management team, is able to perform the managerial role in our Group independently.

NON-COMPETITION ARRANGEMENT AND UNDERTAKINGS

With a view to safeguarding our Group against any potential competition in the future, our Controlling Shareholders have entered into the Deed of Non-Competition in favour of our Company (for itself and as trustee for its subsidiaries). Pursuant to the aforesaid, each of them has, amongst other matters, irrevocably and unconditionally undertaken and covenanted with our Company on a joint and several basis that, at any time during the Relevant Period (as defined below), for so long as remaining to be a Controlling Shareholder, he/it shall, and shall procure that his/its respective subsidiaries and close associate(s) (other than through our Group or in respect of each Controlling Shareholder, together with his/its close associates, as a holder of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognised stock exchanges):

(i) not, individually or collectively with any other entities, in any form, directly or indirectly, be interested, involved or engaged in or acquire or hold any right or interest (in each case whether as a shareholder, director, partner, agent, employee or otherwise, and whether for profit, reward or otherwise) in any business which competes or is likely to compete directly or indirectly with the businesses currently engaged or possibly in the future to be engaged by our Group (including but not limited to our character licensing business and e-commerce and other business in Hong Kong and the PRC or any other country or jurisdiction to which our Group provides such services and/or in which any member of our Group carries on business mentioned above from time to time (the "**Restricted Activity**");

(ii) not take any action, individually or together with any other entities, in any form, directly or indirectly, which constitutes an interference with or a disruption to the business activities of our Group including, but not limited to, solicitation of any existing or the existing customers, suppliers or employee of our Group for employment by them or their close associates (other than members of our Group);

(iii) not, without the prior written consent from our Company, make use of any information pertaining to the business of our Group which may have come to their knowledge in the capacity as the Controlling Shareholders for any purpose of engaging, investing, participating in or having interests in any Restricted Activity;

(iv) if there is any project or new business opportunity that relates to the Restricted Activity (the "**Business Opportunity**") available to any of the Controlling Shareholders or their close associates (other than members of our Group):

a. notify our Company in writing immediately, followed by the provision of all information which is reasonable necessary for the merits on whether or not to engage in such Business Opportunity be considered, assessed and/or evaluated;

b. who plans to participate or engage in such Business Opportunity, give our Company a first right of refusal to participate or engage therein on terms that are fair and reasonable;

c. not pursue such Business Opportunity until our Group has confirmed in writing its rejection to pursue, involve or engage in the same because of commercial reasons, any of our decisions on which will have to be approved by our independent non-executive Directors (at the exclusion of those with beneficial interests in such Business Opportunity), taking into account, among other issues, (i) the prevailing business, legal, regulatory and contractual landscape of our Group, (ii) results of feasibility study, (iii) counterparty risks, (iv) contemplated profitability, (v) the financial resources required for such Business Opportunity and, (vi) where necessary, any opinion from experts on the commercial viability of the same;

d. on the condition that our Group rejects to pursue such Business Opportunity pursuant to sub-paragraph (iv)(c). above, that the principal terms on which the relevant Controlling Shareholder and/or his/its close associates pursues such Business Opportunity are substantially the same as or not more favourable than those disclosed to our Company and that the terms of such pursuance, whether directly or indirectly, shall be disclosed to our Company and our Directors as soon as practicable; and

e. grant our Group an option, which is exercisable at any time during the term of the Deed of Non-Competition, to (i) purchase at one or more times any equity interest, assets or other interests that form part or the entirety of such Business Opportunity, or (ii) operate such Business Opportunity by way of, including but not limited to, management outsourcing, lease or sub-contracting, subject to any third-party pre-emptive rights (which are given rise in accordance with applicable laws and regulations and/or a prior legally-binding document such as articles of association and shareholders' agreement) in which case the Controlling Shareholders shall use their best efforts to procure the relevant third party to waive its pre-emptive rights;

(v) keep our Board informed of any matter of potential conflicts of interests between each of the Controlling Shareholders (including his/its close associates) and our Group, in particular a transaction between any of the Controlling Shareholders (including his/its close associates) and our Group; and

(vi) provide as soon as practicable upon our Company's request to our Directors (including our independent non-executive Directors):

a. all information necessary for the review and enforcement of the undertakings contained in the Deed of Non-Competition by our independent non-executive Directors with regard to such compliance;

b. a written confirmation on an annual basis in respect of compliance by him/it with the terms of the Deed of Non-Competition to facilitate the disclosure in our annual report;

c. their respective consent to the inclusion of such confirmation in our Company's annual report or by way of an announcement, and all such other information as may be reasonably requested by us for our review.

The Deed of Non-Competition is conditional on (i) the Listing Committee granting listing of, and permission to deal in, all the Shares in issue and to be issued under the Global Offering and the Shares which may be issued upon the exercise of options that may be granted under the Share Option Scheme; and (ii) the obligations of the Underwriter(s) under the Underwriting Agreements becoming unconditional (including, if relevant as a result of the waiver of any condition(s) by the Underwriter(s)) and that the Underwriting Agreements not being terminated in accordance with its terms or otherwise.

For the above purpose, the "**Relevant Period**" means the period commencing from the Listing Date and shall expire on the earliest of the following dates on which:

(i) the Controlling Shareholders and their close associates (individually or taken as a whole) ceases to own an aggregate of 30% of the then issued share capital of our Company, directly or indirectly, or cease to be the controlling shareholders for the purpose of the Listing Rules and do not have power to control our Board;

(ii) our Shares cease to be listed on the Stock Exchange; and

(iii) our Company becomes wholly-owned by any of the Controlling Shareholders and/or their respective close associates.

CORPORATE GOVERNANCE

The Deed of Non-competition provides that the Controlling Shareholders and their respective close associates (other than members of our Group) shall not compete with our Group. Our Directors consider that we have adequate corporate governance measures in place to resolve any actual and potential conflict of interest. To further avoid potential conflict of interest, we have implemented the following measures:

(a) our Company has adopted the Articles of Association which provide that a Director shall not vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested;

(b) our independent non-executive Directors will, based on the information available to them, review on an annual basis (i) the compliance with and enforcement of the Deed of Non-competition; and (ii) all the decisions taken in relation to whether to take up the Business Opportunity;

(c) the Controlling Shareholders will, as stipulated under the Deed of Non-competition, provide all relevant information for the annual review by our independent non-executive Directors for compliance with and enforcement of the terms of the Deed of Non-competition;

(d) our Company will disclose, from time to time, information on the Business Opportunity, including but not limited to disclosing through our annual reports or announcements the decision of our independent non-executive Directors to pursue or decline the Business Opportunity, together with the reason in case of decline;

(e) our Company will use our best endeavours to ensure that our Board includes a balanced composition of executive, non-executive and independent non-executive Directors. We have appointed three independent non-executive Directors whom we believe possess sufficient experience and are not involved in any business or other relationship which could interfere in any material manner with the exercise of their independent judgement. Background of our independent non-executive Directors are set out in "Directors and Senior Management — Directors" in this Prospectus; and

(f) we have appointed China Everbright Capital Limited as our compliance adviser, which will provide advice and guidance to our Group in respect of compliance with the Listing Rules and various requirements relating to directors' duties and corporate governance.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The following connected transactions and continuing connected transactions have been, and will be, carried out by our Group in the ordinary and usual course of business, on either normal commercial terms or terms not less favourable to our Company than those available from the Independent Third Parties, and are expected to continue in the foreseeable future.

We set out below a summary of the connected transactions or continuing connected transactions upon the Listing:

Transaction	Connected persons	Nature of relationship	Historical figures Year ended 31 December			For the six months ended 30 June	Annual Cap Year ended 31 December		
			2018	**2019**	**2020**	**2021**	**2021**	**2022**	**2023**
			(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
I. Non-exempt Continuing Connected Transactions									
Merchandise Supply Framework Agreement	ENS Toys	Associate of our executive Director, chairman, chief executive officer and Controlling Shareholder	50,788	51,011	26,414	20,581	40,000	45,000	52,000
II. Fully Exempt Continuing Connected Transactions									
Design Service Framework Agreement	ENS Toys	Associate of our executive Director, chairman, chief executive officer and Controlling Shareholder	569	676	953	1,018	N/A	N/A	N/A
III. Fully Exempt Connected Transactions									
Lease Agreements with ISA Global, Kafutoy Industrial and ENS Toys	ISA Global, Kafutoy Industrial and ENS Toys	Associate of our executive Director, chairman, chief executive officer and Controlling Shareholder	571	571	571	363	N/A	N/A	N/A

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Upon the Listing, the transactions set forth below will constitute non-exempt continuing connected transactions (the "**Non-exempt Continuing Connected Transactions**") of our Company for the purpose of Chapter 14A of the Listing Rules:

Continuing connected transactions subject to report, annual review, announcement, circular and independent Shareholders' approval requirements

(a) Description of the transaction and pricing

Our Company (as purchaser) entered into a merchandise supply framework agreement (the "**Merchandise Supply Framework Agreement**") with ENS Toys (as supplier) on 15 December 2021, for a term commencing from the Listing Date to 31 December 2023. It will be renewed for a further term after the negotiation of the parties. Pursuant to the Merchandise Supply Framework Agreement, we have agreed to, and will procure other members of our Group to, purchase merchandise (including but not limited to apparel and toys) from ENS Toys. There is no minimum purchase amount stipulated in the Merchandise Supply Framework Agreement nor are we bound to purchase merchandise from ENS Toys. The purchase quantity and the purchase prices shall be specified in individual purchase order to be placed by us.

The products will be priced on normal commercial terms and in the ordinary course of our business with reference to the market price of the same or comparable kind of merchandise provided by Independent Third Parties. Before entering into any transactions with ENS Toys, our Group will obtain quotes from at least two Independent Third Parties which provide the same or similar products. Our finance department will review and compare the quotes from Independent Third Parties with the quotes from ENS Toys when determining the supplier so as to ensure that the price of the products provided by ENS Toys to our Group is fair and reasonable and is determined on normal commercial terms or on terms no less favourable to our Group than the terms available from Independent Third Parties.

(b) Connected relationship

As ENS Toys is wholly-owned by Mr. Hui, our executive Director, chairman, chief executive officer and Controlling Shareholder, it is considered as a connected person of our Group under Rule 14A.12(1)(c) of the Listing Rules.

(c) Reasons for the transaction

The transactions under the Merchandise Supply Framework Agreement enable us to obtain the merchandise, which are mainly apparel and toys, to our customers mainly through e-commerce platforms at the prevailing market price which shall not be higher than the price that our Group can purchase similar products from Independent Third Parties.

(d) Historical transaction amounts

The following table sets out the purchases by our Group from ENS Toys during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2018	2019	2020	2021
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Amount of purchases by our Group from ENS Toys	50,788	51,011	26,414	20,581

(e) Annual caps

The maximum annual amount of purchases by our Group from ENS Toys under the Merchandise Supply Framework Agreement for each of the three years ending 31 December 2023 pursuant to the Merchandise Supply Framework Agreement shall not exceed the annual caps set out below:

	For the year ending 31 December		
	2021	2022	2023
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Amount of purchases by our Group from ENS Toys	40,000	45,000	52,000

(f) Basis of annual caps

Our Directors confirm that the proposed annual caps is determined based on (i) the historical amounts of the purchase by our Group during the Track Record Period; (ii) the percentage of our Group's total purchases from ENS Toys during the Track Record Period; and (iii) the expected increase in demand for merchandise with our B.Duck Family Characters during the three years ending 31 December 2023 with reference to the historical growth rate. Our Directors have confirmed that the transactions contemplated under the Merchandise Supply Framework Agreement have been and will be conducted on normal commercial terms.

(g) Listing Rules implications

As the highest applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of the transactions associated with the Merchandise Supply Framework Agreement is expected to be more than 5% on an annual basis, the transactions contemplated under the Merchandise Supply Framework Agreement will, in the absence of a waiver, be subject to reporting, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

APPLICATION FOR WAIVER

Under the Listing Rules, the Non-exempt Continuing Connected Transactions under the Merchandise Supply Framework Agreement will be subject to the reporting, announcement, circular, annual review and independent Shareholders' approval requirements. Pursuant to Rule 14A.105 of the Listing Rules, we have applied to the Stock Exchange for and the Stock Exchange has granted a waiver to us from strict compliance with the announcement, circular and independent Shareholders' approval requirements relating to the Non-exempt Continuing Connected Transactions, subject to (i) the aggregate amounts of the continuing connected transaction for each financial year shall not exceed the annual caps stated above; and (ii) apart from the abovementioned announcement, circular and independent Shareholders' approval requirements of which a waiver is sought, our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules upon the Listing.

FULLY EXEMPT CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

Upon the Listing, the transactions set out below will constitute fully exempt connected transactions or fully exempt continuing connected transactions of our Company which will be exempt from the annual review, reporting, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

FULLY EXEMPT CONTINUING CONNECTED TRANSACTION

Design Service Framework Agreement

(a) Description of the transactions and pricing

ENS Retailing, a wholly-owned subsidiary of our Company, (as service provider) entered into a design service framework agreement (the "**Design Service Framework Agreement**") with ENS Toys (as service recipient) on 15 December 2021, for a term commencing from the Listing Date to 31 December 2023. It will be renewed for a further term after the negotiation of the parties. Pursuant to the Design Framework Service Agreement, we have agreed to provide and ENS Toys agreed to receive product appearance and promotional page design service.

The charges payable under the Design Service Framework Agreement are determined based on the price list compiled by our Group for the services offered to all its customers including Independent Third Parties and ENS Toys. Hence, the price of services provided to ENS Toys by our Group is fair and reasonable and is determined on normal commercial terms or on terms no less favourable to our Group than the terms available to Independent Third Parties.

(b) Connected relationship

As ENS Toys is wholly-owned by Mr. Hui, our executive Director, chairman, chief executive officer and Controlling Shareholder, it is considered as a connected person of our Group under Rule 14A.12(1)(c) of the Listing Rules.

(c) Reasons for the transaction

The Design Service Framework Agreement is mutually beneficial to our Group and ENS Toys. On one hand, as ENS Toys manufactures merchandise for Independent Third Parties on both original equipment manufacturing (OEM) and original design manufacturing (ODM) bases, it requires our Group to provide design consultation service on product appearance and promotional page.

(d) Historical transaction amounts

The following table sets out amount of service fee paid by ENS Toys during the Track Record Period:

	For the year ended 31 December			**For the six months ended 30 June**
	2018	**2019**	**2020**	**2021**
	(HK\$'000)	*(HK\$'000)*	*(HK\$'000)*	*(HK\$'000)*
Amount of service fee paid by ENS Toys	569	676	953	1,018

(e) Listing Rules implications

ENS Toys is an associate of Mr. Hui, who is our executive Director, chairman chief executive officer and Controlling Shareholder, and therefore is the connected person of our Company pursuant to Rule 14A.12(1)(c) of the Listing Rules. Given each of the applicable percentage ratios under the Listing Rules associated with the Design Service Framework Agreement is expected to be less than 5% on an annual basis and the total annual consideration is less than HK$3.0 million for each of the three years ending 31 December 2023, the transaction constitutes a de minimis transaction under Rule 14A.76(1) of the Listing Rules and is exempt from the reporting, announcement, annual review, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

FULLY EXEMPT CONNECTED TRANSACTION

Lease Agreements with ISA Global and Kafutoy Industrial and Sub-lease Agreement with ENS Toys

Lease/ Sub-lease	Date of lease agreement	Landlord/ Lessor	Tenant/ Lessee	Connected Relationship	Locations of properties	Area of property	Term	Monthly rent payable	Use of property
Lease	1 January 2021	ISA Global	ENS Business	Associate of our executive Director, chairman, chief executive officer and Controlling Shareholder	Unit 6, 15/F, Block B2, Hang Wai Industrial Centre, Kin Tai Street, Tuen Mun, New Territories, Hong Kong (the "**ISA Warehouse**")	2,010 sq. ft.	Period commencing from the Listing Date and up to 31 December 2023	HK$14,070, inclusive of expenses in relation to rates but exclusive of property management fees, such rent being payable on a monthly basis.	Warehouse
Lease	1 January 2021	Kafutoy Industrial	ENS Business	Associate of our executive Director, chairman, chief executive officer and Controlling Shareholder	Unit 1&5, 15/F, Block B2, Hang Wai Industrial Centre, Kin Tai Street, Tuen Mun, New Territories, Hong Kong (the "**Kafutoy Warehouse**")	4,437 sq. ft.	Period commencing from the Listing Date and up to 31 December 2023	HK$31,059, inclusive of expenses in relation to rates but exclusive of property management fees, such rent being payable on a monthly basis	Warehouse
Sub-lease	1 January 2021	ENS Toys	ENS Business	Associate of our executive Director, chairman, chief executive officer and Controlling Shareholder	West Third Avenue, Xiangshuihe Industrial Park, Daya Bay District, Huizhou, Guangdong Province (廣東省惠州大亞灣區響水河工業園西三大道) (the "**Huizhou Warehouse**")	168 sq. m.	Period commencing from the Listing Date and up to 31 December 2023 (Note)	RMB2,126.7, such rent being payable on a monthly basis	Warehouse

Note: Upon the early termination or expiry of the lease agreement between ENS Toys (Huizhou) Limited* (盈森玩具(惠州)有限公司), a company indirectly wholly-owned by Mr. Hui, and the lessor, the sub-lease agreement will also be terminated.

(a) Pricing

The monthly rental payable under each of the Lease Agreements has been determined after arm's length negotiations between the parties thereto with reference to: (i) the leasable area, geographic locations and neighbourhood profile of the properties concerned; and (ii) the prevailing market rates in respect of same or similar premises by an Independent Third Party in the vicinity.

(b) Connected relationship

Mr. Hui is our executive Director, chairman, chief executive officer and Controlling Shareholder and ISA Global, Kafutoy Industrial and ENS Toys are his associates since (i) ISA Global, is owned as to 60% by Mr. Hui and 40% by Ms. Lam Ngan Shan, the spouse of Mr. Hui; (ii) Kafutoy Industrial, is owned as to 50% by Mr. Hui Pak Shun and 50% by Ms. Ng Pui Ching, both being parents of Mr. Hui; and (iii) ENS Toys is wholly-owned by Mr. Hui. Therefore, ISA Global, Kafutoy Industrial and ENS Toys are considered as connected persons of our Group under Rule 14A.12(1)(c) of the Listing Rules.

(c) Reasons for the transaction

We have been using the ISA Warehouse and Kafutoy Warehouse as our warehouses. In order to ensure immediate continuity in the use of our warehouses and avoid disruption to our operations which relocation will inevitably entail, we will continue to rent the ISA Warehouse and Kafutoy Warehouse after Listing. Further, we have historically leased the Huizhou Warehouse as temporary storage for merchandise supplied by ENS Toys.

(d) Historical transaction amounts

The following table sets out amount of rental paid to ISA Global, Kafutoy Industrial and ENS Toys during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2018	**2019**	**2020**	**2021**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Amount of rental paid to:				
ISA Global	169	169	169	108
Kafutoy Industrial	373	373	373	240
ENS Toys	29	29	29	15
Total	571	571	571	363

(e) Listing Rules implications

ISA Global, Kafutoy Industrial and ENS Toys are associates of Mr. Hui, who is our executive Director, chairman chief executive officer and Controlling Shareholder, and therefore are connected persons of our Company pursuant to Rule 14A.12(1)(c) of the Listing Rules. Given the applicable percentage ratios (other than profits ratio), as defined under the Listing Rules, in respect of the Lease Agreements is expected to be less than 5% on an annual basis and the total annual consideration is less than HK$3.0 million for each of the three years ending 31 December 2023, the transaction constitutes a de minimis transaction under Rule 14A.76(1) of the Listing Rules and are exempt from the reporting, announcement, annual review, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONFIRMATIONS

Directors' confirmation

Our Directors (including our independent non-executive Directors) are of the view that:

(a) the Non-exempt Continuing Connected Transactions contemplated under the Merchandise Supply Framework Agreement have been and will be entered into in the ordinary and usual course of our business, on normal commercial terms or better which are fair and reasonable and in the interests of our Group and our Shareholders as a whole; and

(b) the proposed aggregate annual caps of the Non-exempt Continuing Connected Transactions are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Sole Sponsor's confirmation

Having taken into account the information above, the Sole Sponsor concurs with our Directors' view that the above Non-exempt Continuing Connected Transactions (i) have been and will be entered into in the ordinary and usual course of business of our Group; (ii) are based on normal commercial terms or better, fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (iii) the proposed aggregate annual caps of the Non-exempt Continuing Connected Transaction are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering, the Share Subdivision and the Capitalisation Issue (but without taking into account Shares which may allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), the following persons will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of members of our Group:

Name of Shareholder	Name of Group member/associated corporation	Nature of interest	Number of Shares held as at the Latest Practicable Date *(Note 1)*	Approximate shareholding percentage as at the Latest Practicable Date *(%)*	Number of securities held *(Note 1)*	Approximate shareholding percentage immediately following completion of the Global Offering, the Share Subdivision and the Capitalisation Issue *(%)*
Semk Global *(Note 2)*	Our Company	Beneficial owner	780,973 Shares (L)	75.36%	663,200,000 Shares (L)	66.32%
Semk Holdings *(Note 2)*	Our Company	Interest of a controlled corporation	780,973 Shares (L)	75.36%	663,200,000 Shares (L)	66.32%
Mr. Hui *(Note 2)*	Our Company	Interest of a controlled corporation	780,973 Shares (L)	75.36%	663,200,000 Shares (L)	66.32%

Notes:

1. The letters “L” denote respectively the “long position” and “short person” (as defined under Part XV of the SFO) of the relevant person/entity in such Shares.

2. Semk Global is wholly-owned by Semk Holdings. Semk Holdings is wholly-owned by Mr. Hui. By virtue of the SFO, each of Semk Holdings and Mr. Hui is deemed to be interested in 66.32% of the issued share capital of our Company held by Semk Global.

For details of our Directors’ interests in Shares immediately following the completion of the Global Offering, see “Statutory and General Information — C. Further information about our Directors and substantial Shareholders — 12. Directors” in Appendix IV to this Prospectus.

Save as disclosed herein, our Directors are not aware of any persons (not being Directors or chief executives of our Company) who will, immediately following completion of the Global Offering, the Share Subdivision and the Capitalisation Issue (but without taking into account any Shares which may allotted and issued upon the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 or 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

The tables below set out information with respect to the share capital of our Company after completion of the Share Subdivision, the Capitalisation Issue and Global Offering.

Authorised Share Capital:		*US$*
2,000,000,000	Shares of US$0.000025 each	50,000.00

Our Company's issued share capital as at the date of this Prospectus is as follows:

Shares		*US$*
1,036,270	Shares in issue as at the date of this Prospectus	10,362.70

Assuming the Over-allotment Option is not exercised and taking no account any Shares that may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme, our Company's issued share capital immediately after completion of the Share Subdivision, the Capitalisation Issue and the Global Offering will be as follows:

Shares		*US$*
414,508,000	Shares in issue after completion of the Share Subdivision	10,362.70
465,492,000	Shares to be issued pursuant to the Capitalisation Issue	11,637.30
120,000,000	Shares to be issued pursuant to the Global Offering	3,000.00
1,000,000,000	Total	25,000.00

Assuming the Over-allotment Option is exercised in full and without taking into account any Shares that may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme, our Company's issued share capital immediately following completion of Share Subdivision, the Capitalisation Issue and the Global Offering will be as follows:

Shares		*US$*
414,508,000	Shares in issue after completion of the Share Subdivision	10,362.70
465,492,000	Shares to be issued pursuant to the Capitalisation Issue	11,637.30
120,000,000	Shares to be issued pursuant to the Global Offering	3,000.00
18,000,000	Shares to be issued upon exercise of the Over-allotment Option	450.00
1,018,000,000	Total	25,450.00

ASSUMPTIONS

The above tables assume that the Share Subdivision and the Capitalisation Issue having been completed and the Global Offering have become unconditional and Shares have been issued pursuant thereto. They take no account of any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08 of the Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of at least 25% of the total issued share capital of our Company in the hands of the public.

RANKING

The Offer Shares will rank *pari passu* in all respects with all Shares currently in issue or to be issued. In particular, they will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this Prospectus save for the entitlements under the Capitalisation Issue.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Schemes, see "D. Other Information — 15. Share Option Scheme" in Appendix IV to this Prospectus for major terms. Terms of the Share Option Scheme are in compliance with Chapter 17 of the Listing Rules. No options have been granted under the Share Option Scheme as at the Latest Practicable Date.

Save as disclosed above, our Company did not have any outstanding share option(s), warrant(s), convertible instruments(s), or similar right(s) convertible into Shares as at the Latest Practicable Date.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot and issue and deal with the unissued Shares with an aggregate nominal value of not exceeding the sum of:

(a) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Capitalisation and the Global Offering (without taking into account any Shares which may be allotted and issued upon the exercise of options granted or may be granted under the Share Option Scheme); and

(b) the aggregate nominal value of the share capital of our Company which may be repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

Our Directors may, in addition to the Shares which they are authorised to issue under the general mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of our Company, scrip dividends or similar arrangements or options providing for the allotment of Shares in lieu of the whole or in any part of any cash dividends or options to be granted under the Share Option Scheme and any option scheme or similar arrangement for the time being adopted.

The general mandate to issue Shares will remain in effect until whichever is the earliest of:

(a) the conclusion of the next annual general meeting; or

(b) the date by which the next annual general meeting is required by the Articles or any applicable law(s) to be held; or

(c) the time when such mandate is varied, revoked or renewed by an ordinary resolution of the Shareholders in a general meeting.

See "A. Further information about our Group — 3. Resolutions of our Shareholders" in Appendix IV to this Prospectus for further details of such general mandate.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all powers of our Company to repurchase Shares with a total number not exceeding 10% of the aggregate of the nominal amount of the share capital of our Company in issue immediately following completion of the Share Subdivision, the Capitalisation Issue and the Global Offering (without taking into account any Shares that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme).

The general mandate only relates to repurchases made on the Stock Exchange or any other stock exchange on which the Shares are Listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. See "A. Further information about our Group — 6. Repurchase of our own Shares" in Appendix IV to this Prospectus for a summary of the relevant requirements of the Listing Rules. The general mandate to repurchase Shares will remain in effect until whichever is the earliest of:

(a) the conclusion of the next annual general meeting;

(b) the date by which the next annual general meeting is required by the Articles or any applicable law(s) to be held; or

(c) the time when such mandate is varied, revoked or renewed by an ordinary resolution of the Shareholders in a general meeting.

See "A. Further information about our Group — 6. Repurchase of our own Shares" in Appendix IV to this Prospectus for further details of such general mandate.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of the Companies Act, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the Articles. Accordingly, our Company will hold general meetings as prescribed for under the Articles, see "Summary of the Constitution of the Company and Cayman Islands Companies Law" in Appendix III to this Prospectus for a summary.

*You should read this section in conjunction with our audited consolidated financial information as at and for the years ended 31 December 2018, 2019 and 2020, and for the six months ended 30 June 2021 including the notes thereto, as set out in "Appendix I — Accountant's Report" to this Prospectus, which has been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**"). The consolidated financial statements have been prepared in accordance with HKFRS. You should read the entire Accountant's Report and not merely rely on the information contained in this section.*

The following discussion and analysis and other parts of this Prospectus contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and projections depends on a number of risks and uncertainties over which we do not have control. See "Risk Factors" and "Forward-looking Statements" in this Prospectus for further details.

OVERVIEW

We are the second largest domestic character IP company and ranked fifth among all character IP companies in China, in terms of character licensing revenue, with a market share of around 2.4% according to the Frost & Sullivan Report. In terms of sales value in the character IP product e-commerce market in China, we had a market share of around 0.6% in 2020. IPs and our brand are at the heart of our business. Our business comprises the creation, design, licensing, brand management and marketing of our self-created, self-owned and iconic B.Duck Family Characters across multi channels. We create and develop style guides, license our B.Duck Family Characters and brands to our licensees, provide them with product design application services and allow them to use our characters on a diverse range of products, including home lifestyle & living, apparel, accessories and infant personal care products etc. We also sell our B.Duck Family Characters-featured products through fast growing online sales channels, such as our Tmall flagship store, as well as our offline sales channels. As at the Latest Practicable Date, our B.Duck Family Characters had recorded in aggregate more than 10.5 million subscriptions or follows by B.Duck Fans on various e-commerce platforms and social networking platforms, with in aggregate, over 740 million views of various types of content in relation to the elements of B.Duck Family Characters.

Across the Track Record Period, our revenue increased by approximately 16.3% from approximately HK$200.9 million for FY2018 to approximately HK$233.5 million for FY2020, and increased by approximately 33.3% from approximately HK$92.9 million for 6M2020 to approximately HK$123.8 million for 6M2021. Our profit attributable to owners of our Company increased by approximately 453.1% from approximately HK$9.9 million for FY2018 to approximately HK$54.5 million for FY2020, and increased by approximately 22.7% from approximately HK$14.2 million for 6M2020 to approximately HK$17.5 million for 6M2021.

BASIS OF PRESENTATION

Our Company was incorporated on 10 December 2020 as an exempted company in the Cayman Islands with limited liability. In preparation for the Listing, our Group underwent the Reorganisation, pursuant to which our Company became the holding company of the subsidiaries now comprising our Group. Please refer to "History, Corporate Structure and Reorganisation — Reorganisation" in this Prospectus for further details in relation to the Reorganisation.

The consolidated statements of comprehensive income, consolidated statements of financial position, consolidated statements of changes in equity and consolidated statements of cash flows of our Group for the Track Record Period have been prepared by including the historical financial information of the companies engaged in our two business segments, namely (i) character licensing business and (ii) e-commerce and other business, under the common control of Mr. Hui immediately before and after the Reorganisation and now comprising our Group as if the current group structure had been in existence throughout the Track Record Period, or since the date when the combining companies first came under the control of Mr. Hui, whichever is a shorter period. For further details, please refer to note 1.3 to the Accountant's Report in Appendix I to this Prospectus.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including those set out below:

General economic conditions and the development of character licensing industry in our strategic markets

Our results of operation and financial condition are affected by the economic development and levels of per capita consumer spending in our strategic markets, including the PRC, Hong Kong and SEA. The continued growth in our revenue is subject to the continued expansion in international trade and increase in consumer spending and confidence in these markets. Changes in economic activities or economic condition in our strategic markets may affect consumers' willingness to spend, and hence directly impact the results of our business. The change in consumer spending will also affect the business of our licensees, and in turn affect their demand for our character licensing services. In addition to the overall economic condition, other general conditions such as regulatory environment, awareness for IP protection and popularity of IP licensed products in general may also affect the licensing industry and our results of operations.

According to the Frost & Sullivan Report, the character licensing industry in the Asia Pacific region is expected to maintain strong growth in future. In particular, the retail sales value of character IP licensed goods in China and Hong Kong increased from approximately HK$39.3 billion in 2016 to approximately HK$40.4 billion in 2020 (representing a CAGR of approximately 0.7%), and is expected to grow at a CAGR of approximately 7.6% from 2021 to approximately HK$60.5 billion in 2025. As we expect the licensing industry in our strategic markets will continue to grow, our success depends on, among others, our ability to capture such growth and realise it in our results of operations.

Development and success of our IP characters

The popularity of our existing IP characters, as well as any new characters that we may launch in future, is one of the major factors affecting our results of operation and financial condition. Our B.Duck Family Characters contributed to approximately 99.2%, 98.9%, 99.0%, 98.3% and 99.5% of the revenue generated from our character licensing business for FY2018 to FY2020, 6M2020 and 6M2021, respectively. Different IP characters attract different licensees and hence, vary in terms of their respective product mix and cover respective consumers. If our IP characters fail to meet the expectations of our licensees or end consumers or lose their popularity, our business, financial conditions and results of operation could be adversely affected. Our profitability is therefore affected by the mix of IP characters we offer. We will continue to develop and launch new IP characters to diversify our IP character portfolio, and to enrich and re-energise our existing IP characters to gain market recognition and enhance our competitiveness. With more established IP characters, we would be able to attract new high-quality licensees with sound distribution channel, capability and considerable market share. We also strive to maintain an optimal IP character portfolio to strengthen our strategic business relationships with our existing licensees. Further, our ability to expand our coverage or to cooperate with other licensing agents in different countries may also affect our income, and hence, is critical to the growth of our business and profitability.

Our Directors also believe that establishing and maintaining mutually beneficial relationships with our licensing agents and licensees is critical to our success as we primarily work with our licensees to provide consumers with sufficient quantities of high quality products that meet their demand.

Our business and service mix

During the Track Record Period, we derived our revenue from two business segments, namely character licensing business and e-commerce and other business. The revenue derived from our character licensing business accounted for approximately 31.8%, 33.6%, 42.0%, 33.7% and 47.6%, and the revenue derived from our e-commerce and other business accounted for approximately 68.2%, 66.4%, 58.0%, 66.3% and 52.4% of our total revenue for FY2018 to FY2020, 6M2020 and 6M2021, respectively. Further, our character licensing business can be further categorised into five service types, namely (i) merchandise licensing; (ii) LBE licensing; (iii) content and media licensing; (iv) promotion licensing; and (v) design consultation.

Our profitability and results of operations are affected by our business and service mix, which may change over time as and when we further develop our business. We may deploy more resources into certain type of business/service to better capture market opportunities and meet the needs of consumers. Any change in the structure of revenue contribution from our revenue mix may have a corresponding impact on our overall profitability. In addition, any change in our pricing policy may also affect our customer demand and hence have a direct impact on our results of operation.

Seasonality

Our financial condition and results of operation are subject to seasonal fluctuations. We typically experience higher sales for our e-commerce and other business in the fourth quarter of each year, particularly during major e-commerce campaigns such as the Double-Eleven and "Double-12 Day". As a result, we typically have higher levels of inventories to satisfy our increased sales during such promotion campaigns or periods. On the other hand, the royalty income derived from our character licensing business is also generally higher in the second half of each year, primarily because (i) excess royalties are usually recognised in the fourth quarter of the year when the cumulated sales of our licensees for the year exceed the threshold for charging excess royalties, and (ii) our design consultation services are usually delivered during the second half of each year such that our licensees could launch the relevant products/services in the first half of the following year.

Cost of inventories sold and employee benefit expenses

During the Track Record Period, our cost of inventories sold (comprising primarily cost of inventories for our e-commerce and other business) amounted to approximately HK$69.4 million, HK$75.1 million, HK$54.9 million, HK$25.2 million and HK$27.7 million for FY2018 to FY2020, 6M2020 and 6M2021, respectively, which accounted for approximately 38.9%, 37.6%, 33.7%, 33.7% and 29.1% of our total operating expenses (comprising employee benefit expenses, depreciation and amortisation, promotion costs, online platform usage fee, cost of inventories sold and other expenses) for the respective periods. We generally set the price of the merchandise we offer to our customers based on our merchandise procurement costs plus a profit margin. When the prices offered to us by our suppliers fluctuate, the selling prices of our merchandises would be adjusted correspondingly. However, there is no guarantee that we can fully pass the increase in procurement costs on to our customers and our results of operation may therefore be adversely affected. In addition, any raise in our merchandise selling price due to increase in procurement costs may render our merchandise less competitive in the market and lead to a possible decrease in our profit margin.

For the Track Record Period, our employee benefit expenses (primarily comprised of salaries and allowances) amounted to approximately HK$42.9 million, HK$51.2 million, HK$42.3 million, HK$19.9 million and HK$29.9 million for FY2018 to FY2020, 6M2020 and 6M2021, respectively, representing approximately 24.0%, 25.6%, 26.0%, 26.6% and 31.4% of our total operating expenses (comprising employee benefit expenses, depreciation and amortisation, promotion costs, online platform usage fee, cost of inventories sold and other expenses) for the respective periods. We may increase the number of our employees as we further develop our business. In addition, we consider it is important for our Group to retain quality staff, particularly our IP characters development personnel. As such, our ability to respond to increasing employee benefit expenses and to retain our employees is important to our operations and financial conditions. In the event that our employee benefit expenses increase, our results of operations will be adversely affected if we are not able to increase our revenue or staff productivity to mitigate the higher costs and related expenses.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our Group's financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. In each case, the determination of these items requires management judgements based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the judgements and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. Our significant accounting policies, estimates and judgements, which are important for an understanding of our financial condition and results of operations, are set out below. See notes 2 and 4 to the Accountant's Report set out in Appendix I to this Prospectus for details.

Revenue recognition

Revenue from provision of licensing services relates to granting licensees the right to use trademarks created, developed and registered by our Group in different categories of licensees' products and/or services. The revenue from the provision of licensing services is recognised over the licensing period.

Revenue from provision of design consultation services relates to provision of design consultation and brand management services to third parties and is recognised over time when the services are provided to the customer up to the point when the customer has accepted the deliverables.

Revenue from the sales of merchandising products is recognised when control of the products has transferred, being when the products are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been delivered to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or our Group has objective evidence that all criteria for acceptance have been satisfied.

Contract assets and contract liabilities

Upon entering into a contract with a customer, our Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations gives rise to a net asset or net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining conditional rights to consideration exceeds the satisfied performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if consideration received (or an amount of consideration is due) from the customer exceeds the measure of the remaining unsatisfied performance obligations.

Impairment of trade receivables and contract assets

Provision for expected credit loss is made when our Group is not expected to collect all amounts due. The provision is determined by grouping together debtors with similar risk characteristics and collectively, or individually assessing them for likelihood of recovery. The provision matrix is determined based on our Group's historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. In making the judgement, our Group's management considers available reasonable and supportive forwarding-looking information such as actual or expected significant changes in the operating results of customers, and actual or expected significant adverse changes in business and customers' financial position. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed by our Group's management.

Leases

Our Group leases various properties as premises. Property leases are recognised as right-of-use assets and corresponding liabilities at the date of which the respective leased asset is available for use by our Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of various lease payments including fixed payments (including in-substance fixed payments) less any lease incentives receivables.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, our Group's incremental borrowing rate will be used instead.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of less than 12 months.

Income taxes

Our Group is subject to income taxes in Hong Kong and the PRC. Significant judgement is required in determining the provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain. Our Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Trademark

Trademark that has a finite useful life is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost over its estimated useful life of 10 years based on the validity period of 10 years of a registered trademark, which is subject to renewal after its expiration.

RESULTS OF OPERATIONS

The following table summarises the consolidated statements of comprehensive income of our Group during the Track Record Period, details of which are set out in the Accountant's Report in Appendix I to this Prospectus.

	FY2018	FY2019	FY2020	6M2020	6M2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Revenue	200,864	243,046	233,515	92,876	123,773
Other income	3,037	6,147	8,739	3,582	4,567
Other (losses)/gains, net	(1,195)	(437)	3,145	(677)	361
Cost of inventories sold	(69,374)	(75,147)	(54,910)	(25,195)	(27,668)
Employee benefit expenses	(42,859)	(51,192)	(42,340)	(19,900)	(29,860)
Promotion costs	(18,049)	(20,676)	(15,874)	(6,870)	(8,139)
Listing expenses	(4,112)	(8,754)	(5,288)	–	(8,145)
Online platform usage fee	(16,219)	(16,957)	(14,356)	(6,724)	(6,722)
Depreciation and amortisation	(7,790)	(8,606)	(10,069)	(5,009)	(4,698)
(Impairment losses)/reversal of impairment losses on financial and contract assets	(1,121)	(2,216)	(3,234)	(1,649)	1,929
Other expenses	(24,277)	(27,422)	(25,294)	(11,157)	(17,997)
Operating profit	18,905	37,786	74,034	19,277	27,401
Finance income	53	60	43	19	10
Finance costs	(1,108)	(1,706)	(2,149)	(1,168)	(803)
Finance costs, net	(1,055)	(1,646)	(2,106)	(1,149)	(793)
Profit before income tax	17,850	36,140	71,928	18,128	26,608
Income tax expense	(7,988)	(12,038)	(17,380)	(3,903)	(9,147)
Profit for the year/period attributable to owners of our Company	9,862	24,102	54,548	14,225	17,461

Non-HKFRS financial measures

We define adjusted net profit under non-HKFRS financial measures as profit for the year/period attributable to owners of our Company excluding non-recurring listing expenses. As listing expenses are non-recurring in nature and not related to the performance of our operation, our Directors consider that the presentation of our Group's adjusted net profit under non-HKFRS financial measures by eliminating the impact of listing expenses can better reflect our operational performance during the Track Record Period. Furthermore, our management also uses the non-HKFRS financial measures to assess our operating performance and formulate business plans. We believe that the non-HKFRS financial measures provide useful information to the investors about our core business operations, which they can use to evaluate our operating results and understand our consolidated results of operations in the same manner as our management. The following table sets forth a reconciliation of our Group's adjusted net profit under non-HKFRS financial measures for the periods indicated to that prepared in accordance with HKFRS measures:

	FY2018	**FY2019**	**FY2020**	**6M2020**	**6M2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Profit for the year attributable to owners of our Company	9,862	24,102	54,548	14,225	17,461
Add:					
Listing expenses	4,112	8,754	5,288	–	8,145
Adjusted net profit under non-HKFRS financial measures	13,974	32,856	59,836	14,225	25,606

Having said the above, the presentation of the non-HKFRS financial measures is not intended to be considered in isolation or as substitute for the financial information prepared and presented in accordance with HKFRS measures. The non-HKFRS financial measures have limitations as analytical tools and our non-HKFRS financial measures may differ from the non-HKFRS financial measures used by other companies, and therefore the comparability of such information may be limited. We encourage the investors to review our financial information in its entirety.

DESCRIPTION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenue by business segment

Our revenue during the Track Record Period was generated from our two business segments, namely (i) character licensing business and (ii) e-commerce and other business. The following table sets forth a breakdown of our revenue by business segment during the Track Record Period:

	FY2018		FY2019		FY2020		6M2020		6M2021	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (*unaudited*)	*%*	*HK$'000*	*%*
Character licensing business	63,827	*31.8*	81,630	*33.6*	98,039	*42.0*	31,283	*33.7*	58,972	*47.6*
E-commerce and other business	137,037	*68.2*	161,416	*66.4*	135,476	*58.0*	61,593	*66.3*	64,801	*52.4*
Total	200,864	*100.0*	243,046	*100.0*	233,515	*100.0*	92,876	*100.0*	123,773	*100.0*

Revenue by customers' geographical location

The following table sets forth a breakdown of our revenue by customers' geographical location during the Track Record Period:

	FY2018		FY2019		FY2020		6M2020		6M2021	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (*unaudited*)	*%*	*HK$'000*	*%*
The PRC	182,306	*90.8*	224,237	*92.3*	227,184	*97.3*	89,554	*96.4*	119,214	*96.3*
Hong Kong	12,965	*6.5*	15,278	*6.3*	4,273	*1.8*	2,110	*2.3*	3,746	*3.0*
Southeast Asia and Taiwan	3,707	*1.8*	2,034	*0.8*	1,741	*0.8*	1,000	*1.1*	755	*0.6*
South Korea	1,372	*0.7*	1,200	*0.5*	65	*0.0*	65	*0.1*	–	–
Others *(Note)*	514	*0.2*	297	*0.1*	252	*0.1*	147	*0.1*	58	*0.1*
Total	200,864	*100.0*	243,046	*100.0*	233,515	*100.0*	92,876	*100.0*	123,773	*100.0*

Note: Others include revenue generated from Mexico, Peru and other countries.

During the Track Record Period, our revenue was mainly generated from customers located in the PRC and Hong Kong, which in aggregate amounted to approximately 97.3%, 98.6%, 99.1%, 98.7% and 99.3% of our total revenue for FY2018 to FY2020, 6M2020 and 6M2021, respectively.

Revenue generated from character licensing business

The following table sets forth a breakdown of our revenue by service type under our character licensing business during the Track Record Period:

	FY2018		FY2019		FY2020		6M2020		6M2021	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Merchandise licensing										
Minimum guarantee	20,299	*31.8*	27,623	*33.8*	32,340	*33.0*	15,226	*48.7*	22,597	*38.3*
Excess royalties	3,650	*5.7*	13,816	*16.9*	31,053	*31.7*	7,789	*24.9*	17,035	*28.9*
Total royalty income	23,949	*37.5*	41,439	*50.7*	63,393	*64.7*	23,015	*73.6*	39,632	*67.2*
LBE licensing										
Minimum guarantee	7,317	*11.5*	8,340	*10.2*	9,151	*9.4*	1,446	*4.6*	3,834	*6.5*
Excess royalties	229	*0.3*	2,018	*2.5*	1,202	*1.2*	258	*0.8*	1,197	*2.0*
Total royalty income	7,546	*11.8*	10,358	*12.7*	10,353	*10.6*	1,704	*5.4*	5,031	*8.5*
Content and media licensing										
Minimum guarantee	5,154	*8.1*	7,134	*8.7*	5,588	*5.7*	671	*2.1*	951	*1.6*
Excess royalties	2	*0.0*	45	*0.1*	17	*0.0*	19	*0.1*	145	*0.3*
Total royalty income	5,156	*8.1*	7,179	*8.8*	5,605	*5.7*	690	*2.2*	1,096	*1.9*
Promotion licensing										
Minimum guarantee	6,207	*9.7*	3,716	*4.6*	1,852	*1.9*	867	*2.8*	1,037	*1.8*
Excess royalties	822	*1.3*	665	*0.8*	1,342	*1.3*	303	*1.0*	261	*0.4*
Total royalty income	7,029	*11.0*	4,381	*5.4*	3,194	*3.2*	1,170	*3.8*	1,298	*2.2*
Design consultation service fees	20,147	*31.6*	18,273	*22.4*	15,494	*15.8*	4,704	*15.0*	11,915	*20.2*
Total	63,827	*100.0*	81,630	*100.0*	98,039	*100.0*	31,283	*100.0*	58,972	*100.0*

The following table sets forth a breakdown of number of licensing contract by service type under our character licensing business during the Track Record Period and up to the Latest Practicable Date:

	FY2018	FY2019	FY2020	6M2021	Since 30 June 2021 and up to the Latest Practicable Date
Number of contracts brought forward from prior year					
Merchandise licensing	64	74	114	118	134
LBE licensing	4	16	19	19	14
Content and media licensing	6	5	4	1	3
Promotion licensing	13	11	8	6	1
Design consultation (Note)	37	55	79	85	110
Total number of contracts brought forward	87	106	146	144	152
Add: Number of contracts awarded during the year/period					
Merchandise licensing	54	87	75	53	28
LBE licensing	31	24	19	3	7
Content and media licensing	4	5	4	2	–
Promotion licensing	14	18	7	1	2
Design consultation (Note)	39	51	42	42	13
Total number of contracts awarded	103	136	105	59	37
Less: Number of contracts expired during the year/period					
Merchandise licensing	(42)	(47)	(64)	(36)	(26)
LBE licensing	(18)	(21)	(16)	(8)	(3)
Content and media licensing	(5)	(6)	(7)	–	–
Promotion licensing	(15)	(21)	(8)	(6)	–
Design consultation (Note)	(18)	(27)	(29)	(16)	(17)
Total number of contracts expired	(80)	(96)	(96)	(50)	(29)

	FY2018	FY2019	FY2020	6M2021	Since 30 June 2021 and up to the Latest Practicable Date
Less: Number of contracts early terminated during the year/period					
Merchandise licensing	(2)	–	(7)	(1)	–
LBE licensing	(1)	–	(3)	–	–
Content and media licensing	–	–	–	–	–
Promotion licensing	(1)	–	(1)	–	–
Design consultation (Note)	(3)	–	(7)	(1)	–
Total number of contracts early terminated	(4)	–	(11)	(1)	–
Number of contracts carried forward to next year/as at the Latest Practicable Date					
Merchandise licensing	74	114	118	134	136
LBE licensing	16	19	19	14	18
Content and media licensing	5	4	1	3	3
Promotion licensing	11	8	6	1	3
Design consultation (Note)	55	79	85	110	106
Total number of contracts carried forward/as at the Latest Practicable Date	106	146	144	152	160

Note: For contracts which provide for both design consultation services and licensing services, such contracts are counted as both design consultation services contracts and contracts for the licensing services involved. During the Track Record Period, there were only two contracts exclusively for design consultation services, which were both awarded in FY2019, with one expired in FY2019 and the other one expired in FY2020.

During the Track Record Period, 16 of our character licensing contracts were early terminated, and the total outstanding licensing fee of such contracts was approximately HK$3.8 million, representing less than 0.5% of our total revenue during the Track Record Period. There had been no early termination of our character licensing contract since 30 June 2021 and up to the Latest Practicable Date.

The following table sets forth a breakdown of our revenue by IP characters under our character licensing business during the Track Record Period:

	FY2018		FY2019		FY2020		6M2020		6M2021	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Our self-created IP characters										
B.Duck	53,892	*84.4*	61,555	*75.4*	75,035	*76.5*	26,722	*85.4*	43,423	*73.6*
Buffy	6,082	*9.5*	8,625	*10.6*	7,831	*8.0*	1,152	*3.7*	3,251	*5.5*
B.Duck Baby	3,351	*5.3*	7,816	*9.6*	13,451	*13.7*	2,428	*7.8*	10,469	*17.7*
Bath'N Duck	–	–	2,319	*2.8*	725	*0.7*	357	*1.1*	387	*0.7*
Dong Duck	–	–	379	*0.5*	136	*0.1*	79	*0.3*	1,155	*2.0*
Licensed Characters	502	*0.8*	936	*1.1*	861	*1.0*	545	*1.7*	287	*0.5*
Total	63,827	*100.0*	81,630	*100.0*	98,039	*100.0*	31,283	*100.0*	58,972	*100.0*

Revenue generated from e-commerce and other business

The following table sets forth a breakdown of our revenue by sales channel under our e-commerce and other business during the Track Record Period:

	FY2018		FY2019		FY2020		6M2020		6M2021	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Revenue generated from online sales channels										
Tmall	112,424	*82.0*	115,581	*71.6*	101,446	*74.9*	47,077	*76.4*	44,939	*69.3*
VIP.com	6,707	*4.9*	20,079	*12.4*	24,211	*17.9*	10,504	*17.1*	14,155	*21.8*
JD.com	925	*0.7*	2,369	*1.5*	3,250	*2.4*	1,211	*2.0*	2,039	*3.2*
HKTVmall	–	–	–	–	256	*0.2*	–	–	447	*0.7*
Douyin	–	–	–	–	–	–	–	–	401	*0.6*
Others	118	*0.1*	848	*0.5*	695	*0.5*	369	*0.6*	230	*0.4*
	120,174	*87.7*	138,877	*86.0*	129,858	*95.9*	59,161	*96.1*	62,211	*96.0*
Revenue generated from offline sales channels *(Note)*	16,863	*12.3*	22,539	*14.0*	5,618	*4.1*	2,432	*3.9*	2,590	*4.0*
Total	137,037	*100.0*	161,416	*100.0*	135,476	*100.0*	61,593	*100.0*	64,801	*100.0*

Note: Revenue generated from offline sales channels include sales through wholesales and consignment stores during the Track Record Period.

The following table sets out our revenue by product categories under our e-commerce and other business during the Track Record Period:

	FY2018		FY2019		FY2020		6M2020		6M2021	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Product categories										
Apparel *(Note 1)*	92,932	*67.8*	114,408	*70.9*	108,755	*80.3*	48,473	*78.7*	49,792	*76.8*
Bags *(Note 2)*	31,521	*23.0*	31,538	*19.5*	12,850	*9.5*	6,496	*10.5*	4,758	*7.4*
Others *(Note 3)*	12,584	*9.2*	15,470	*9.6*	13,871	*10.2*	6,624	*10.8*	10,251	*15.8*
Total	137,037	*100.0*	161,416	*100.0*	135,476	*100.0*	61,593	*100.0*	64,801	*100.0*

Notes:

(1) Comprising primarily female clothing including t-shirt, jacket, sweater, skirt and trousers

(2) Comprising, among others, backpack, handbags and luggage

(3) Comprising, among others, stationery, packaged food and beverage, car accessories and bathroom products

Our revenue from e-commerce and other business is recognised based on the contract price, net of discounts, value added taxes and provision for sales return (which is estimated based on actual sales return and historical sales return pattern). It is our Group's policy to offer unconditional return within seven days after sales, and return applications beyond seven days after sales are approved by us on a discretionary basis.

We obtain actual sales return data by referencing to our monthly sales report for the purpose of monitoring the sales return pattern and preparing our monthly management account. We would make provision for sales return in our monthly management accounts. From our experience, most sales return would happen within one month after the relevant sales, such that our provision for sales return for a particular period will be recognised based on actual sales return incurred one month thereafter that are related to the sales in the relevant preceding period and historical sales return pattern during the year. Our Directors consider that sufficient and adequate provision of sales return has been made under the aforementioned basis during the Track Record Period.

Our revenue from character licensing business accounted for approximately 31.8%, 33.6%, 42.0%, 33.7% and 47.6%, and our revenue from e-commerce and other business accounted for approximately 68.2%, 66.4%, 58.0%, 66.3% and 52.4% of our total revenue for FY2018 to FY2020, 6M2020 and 6M2021, respectively.

Our revenue from character licensing business increased by approximately HK$17.8 million or approximately 27.9% from approximately HK$63.8 million for FY2018 to approximately HK$81.6 million for FY2019. Such increase was mainly attributable to the increase in excess royalties charged from our licencees as a result of their increased sales of goods or services featuring our IP characters. It then further increased by approximately HK$16.4 million or approximately 20.1% to approximately HK$98.0 million for FY2020, which was likewise primarily attributable to the increased excess royalties charged from our licensees. Our revenue from character licensing business increased by approximately HK$27.7 million or approximately 88.5% from approximately HK$31.3 million for 6M2020 to approximately HK$59.0 million for 6M2021, which was primarily attributable to (a) an increase in the minimum guarantee and design consultation service fee recognised by our Group, in part due to the increase in the number of revenue generating contracts from 189 for 6M2020 to 203 for 6M2021; and (b) the increased excess royalties charged from our licensees.

Our revenue from e-commerce and other business increased by approximately HK$24.4 million or approximately 17.8% from approximately HK$137.0 million for FY2018 to approximately HK$161.4 million for FY2019. Such increase was primarily attributable to the increase in sales through e-commerce platforms, partly as a result of our devotion of more resources on JD.com and VIP.com. It then decreased by approximately HK$25.9 million or approximately 16.1% to approximately HK$135.5 million for FY2020. Such decrease was primarily attributable to the outbreak of COVID-19, as well as the downsizing of our offline sales operations. Our revenue from e-commerce and other business increased by approximately HK$3.2 million or approximately 5.2% from approximately HK$61.6 million for 6M2020 to approximately HK$64.8 million for 6M2021, which was primarily attributable to (i) our increase in online sales on certain e-commerce platforms including a live-streaming platform, Douyin, which we only commenced sales during 6M2021; and (ii) increase in offline sales to a corporate customer in Hong Kong.

Segment gross profit and segment gross profit margin of our e-commerce and other business

The table below sets out the segment gross profit (calculated by deducting cost of inventories sold from revenue attributable to our e-commerce and other business) and segment gross profit margin of our e-commerce and other business during the Track Record Period:

	FY2018	**FY2019**	**FY2020**	**6M2020**	**6M2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Revenue attributable to e-commerce and other business	137,037	161,416	135,476	61,593	64,801
Less: cost of inventories sold	(69,374)	(75,147)	(54,910)	(25,195)	(27,668)
Segment gross profit of our e-commerce and other business	67,663	86,269	80,566	36,398	37,133
	(%)	*(%)*	*(%)*	*(%)*	*(%)*
Segment gross profit margin of our e-commerce and other business	49.4	53.4	59.5	59.1	57.3

The following table sets out (i) the gross profit and gross profit margin (calculated after the exclusion of unallocated inventory costs, namely, cost of packaging materials and (provision for)/write-back of impairment) of our products under our e-commerce and other business, and (ii) the reconciliation with the segment gross profit of our e-commerce and other business, during the Track Record Period:

	FY2018		FY2019		FY2020		6M2020		6M2021	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Product categories										
Apparel (Note 1)	51,346	*55.3*	67,291	*58.8*	68,650	*63.1*	28,787	*59.4*	31,231	*62.7*
Bags (Note 2)	15,744	*49.9*	15,434	*48.9*	6,575	*51.2*	3,833	*59.0*	2,900	*60.9*
Others (Note 3)	4,097	*32.6*	4,917	*31.8*	3,910	*28.2*	2,895	*43.7*	4,262	*41.6*
Subtotal	71,187	*51.9*	87,642	*54.3*	79,135	*58.4*	35,515	*57.7*	38,393	*59.2*
Less: unallocated inventory costs										
Cost of packaging materials	(2,053)	–	(1,995)	–	(884)	–	(328)	–	(457)	–
(Provision for)/ write-back of impairment of inventories	(1,471)	–	622	–	2,315	–	1,211	–	(803)	–
Segment gross profit of our e-commerce and other business	67,663	*49.4*	86,269	*53.4*	80,566	*59.5*	36,398	*59.1*	37,133	*57.3*

Notes:

(1) Comprising primarily female clothing including t-shirt, jacket, sweater, skirt and trousers

(2) Comprising, among others, backpack, handbags and luggage

(3) Comprising, among others, stationery, packaged food and beverage, car accessories and bathroom products

During the Track Record Period, (i) apparel had a relatively higher gross profit margin than the other two categories of products, whereas (ii) products falling under the "others" category, including stationery, packaged food and beverage, car accessories and bathroom products, had the lowest gross profit margin. The gross profit margin of bags decreased from approximately 49.9% in FY2018 to approximately 48.9% in FY2019, notwithstanding there was a decrease in the average unit procurement costs of bags from approximately HK$44.2 to approximately HK$38.8 in the corresponding periods. This was mainly due to the decreased portion of our online retail sales of bags through e-commerce platforms in FY2019 as compared to FY2018, where in general a higher selling price would be charged for same or similar products as compared to sales through offline channels, which are usually wholesale in nature, such that a lower gross profit margin would be resulted for our sales through offline channels. In FY2020, the gross profit margin of bags increased to approximately 51.2% notwithstanding the increase in average unit procurement costs of bags of approximately 10.8% during the same year, mainly attributable to the increased portion of our online retails sales of bags through e-commerce platforms as compared to offline sales.

The segment gross profit of our e-commerce and other business for FY2018 to FY2020, 6M2020 and 6M2021 amounted to approximately HK$67.7 million, HK$86.3 million, HK$80.6 million, HK$36.4 million and HK$37.1 million, respectively, with segment gross profit margin of approximately 49.4%, 53.4%, 59.5%, 59.1% and 57.3%, respectively.

The segment gross profit margin increased from approximately 49.4% for FY2018 to approximately 53.4% for FY2019, which was attributable to, among others, (i) the decrease in average procurement costs per unit for apparel from approximately HK$82.5 to approximately HK$76.0, as we enjoyed bulk purchase discounts due to the increase in procurement volume in FY2019 to cope with the growth of our e-commerce and other business. In this connection, apparel accounted for approximately 62.0% and 65.1% of our total inventory procurement costs for FY2018 and FY2019, respectively; (ii) the increase in our sales of apparel from approximately HK$92.9 million in FY2018 to approximately HK$114.4 million in FY2019, which corresponded to approximately 67.8% and 70.9% of our revenue under our e-commerce and other business for FY2018 and FY2019, respectively. In this connection, apparel had a higher gross profit margin as compared to other products, in part due to the decrease in average unit procurement costs for apparel in FY2019 as discussed above; and (iii) we recorded write-back of impairment of inventories of approximately HK$0.6 million for FY2019, as opposed to a provision for impairment of inventories of approximately HK$1.5 million for FY2018, which were reflected in our cost of inventories sold for the corresponding periods. The said increase in segment gross profit margin and the corresponding increase in gross profit from FY2018 to FY2019 contributed to the turnaround of the segment results of our e-commerce and other business from a loss of approximately HK$5.6 million for FY2018 to a profit of approximately HK$3.0 million for FY2019.

The segment gross profit margin further increased to approximately 59.5% for FY2020, attributable to, among others, (i) the fact that our sales during FY2020 focused on apparel which had a higher gross profit margin of approximately 63.1% as compared to other products. In this connection, apparel accounted for approximately 80.3% of our revenue under our e-commerce and other business, and approximately 74.8% of our total inventory procurement costs for FY2020. As compared to the gross profit margin of approximately 58.8% for FY2019, the higher gross profit margin of apparel for FY2020 was in part due to the decrease in average unit procurement cost of apparel of approximately 8.4% in FY2020, which, as we understood from our suppliers, was mainly due to the general decrease in the costs of raw materials such as cotton and fabrics in the PRC in the range of approximately 9.2% to 23.9% in FY2020 as compared to FY2019 as confirmed by Frost & Sullivan; and (ii) we recorded a higher write-back of impairment of inventories of approximately HK$2.3 million for FY2020, as compared to that of approximately HK$0.6 million for FY2019. Our segment gross profit margin decreased from approximately 59.1% for 6M2020 to approximately 57.3% for 6M2021, primarily attributable to the fact that there was a provision for impairment of inventories of approximately HK$0.8 million for 6M2021, which has been recognised as our cost of inventories sold, as opposed to the write-back of impairment of inventories of approximately HK$1.2 million for 6M2020, such that there was an increase in our cost of inventories sold for 6M2021 as compared to 6M2020.

The following table sets out a breakdown of our total inventory procurement costs and average unit procurement costs of our products (after excluding unallocated procurement cost of packaging materials) during the Track Record Period:

	FY2018		**FY2019**		**FY2020**		**6M2020**		**6M2021**	
		Average unit costs		**Average unit costs**		**Average unit costs**		**Average unit costs**		**Average unit costs**
	HK$'000	*HK$*	*HK$'000*	*HK$*	*HK$'000*	*HK$*	*HK$'000* (*unaudited*)	*HK$*	*HK$'000*	*HK$*
Product categories										
Apparel *(Note 1)*	33,745	*82.5*	49,900	*76.0*	40,069	*69.6*	13,699	*66.5*	31,677	*64.8*
Bags *(Note 2)*	10,428	*44.2*	15,124	*38.8*	3,195	*43.0*	1,118	*41.1*	1,706	*35.4*
Others *(Note 3)*	8,337	*11.3*	10,983	*12.5*	9,374	*20.8*	3,410	*19.9*	6,056	*34.1*
Unallocated procurement costs:										
Procurement cost of packaging materials	1,873	–	699	–	905	–	319	–	460	–
Total inventory procurement costs	54,383	–	76,706	–	53,543	–	18,546	–	39,899	–

Notes:

(1) Comprising primarily female clothing including t-shirt, jacket, sweater, skirt and trousers

(2) Comprising, among others, backpack, handbags and luggage

(3) Comprising, among others, stationery, packaged food and beverage, car accessories and bathroom products

During the Track Record Period, the average procurement costs per unit of our products fluctuated depending on, among others, our procurement volume, the type of product procured and the then market condition of the relevant industry. In general, the average procurement costs per unit is negatively correlated to the procurement volume as we may enjoy bulk purchase discounts offered by our suppliers. Further, the type of product procured would also have a bearing on the procurement costs. This is particularly so for the procurement of products falling under the “others” category, which embraces a wide spectrum of products ranging from packaged food and beverage to bathroom products. In this connection, the product mix offered under our e-commerce and other business is determined based on the results of our market search and data analysis on market trend, and that our historical sales performance and feedback from our sales network would be taken into account by our design, research and development team. On top of the above, the market condition of the relevant industry may also affect the procurement costs. For instance, there was a decrease in average unit procurement costs of apparel of approximately 8.4% in FY2020 as compared to FY2019, which, as we understood from our suppliers, was mainly due to the general decrease in the costs of raw materials such as cotton and fabrics in the PRC in the range of approximately 9.2% to 23.9% in FY2020 as compared to FY2019 as confirmed by Frost & Sullivan.

The following table sets forth a breakdown of our inventory volume by product category under our e-commerce and other business during the Track Record Period:

	FY2018	**FY2019**	**FY2020**	**6M2021**
	Units	*Units*	*Units*	*Units*
Inventory volume at the beginning of the year/period				
Apparel *(Note 1)*	162,846	111,702	259,729	270,121
Bags *(Note 2)*	180,496	127,762	130,523	65,978
Others *(Note 3)*	277,429	288,988	320,772	319,996
Add: procurement volume during the year/period				
Apparel *(Note 1)*	408,865	656,955	575,603	488,909
Bags *(Note 2)*	236,025	390,065	74,268	48,169
Others *(Note 3)*	740,091	877,964	451,598	177,541
Less: sales volume during the year/period				
Apparel *(Note 1)*	(460,009)	(508,928)	(565,211)	(285,283)
Bags *(Note 2)*	(288,759)	(387,304)	(138,813)	(44,418)
Others *(Note 3)*	(728,532)	(846,180)	(452,374)	(232,227)
Inventory volume at the end of the year/period				
Apparel *(Note 1)*	111,702	259,729	270,121	473,747
Bags *(Note 2)*	127,762	130,523	65,978	69,729
Others *(Note 3)*	288,988	320,772	319,996	265,310

Notes:

(1) Comprising primarily female clothing including t-shirt, jacket, sweater, skirt and trousers

(2) Comprising, among others, backpack, handbags and luggage

(3) Comprising, among others, stationery, packaged food and beverage, car accessories and bathroom products

Our inventory procurement volume increased from FY2018 to FY2019 to cope with the growth of our e-commerce and other business. Our inventory procurement volume however decreased in FY2020 as compared to FY2019, as we adopted a more reserved procurement policy in light of the outbreak of COVID-19 with a view to minimise the risk of obsolete stock. As compared to 6M2020, there was an increase in our inventory procurement volume in 6M2021 as we intended to stock up for various e-commerce campaigns in the second half of 2021.

Segment results of our e-commerce and other business

The segment results (before the effect of unallocated listing expense) of our e-commerce and other business amounted to a loss of approximately HK$5.6 million for FY2018, and a profit of approximately HK$3.0 million, HK$11.9 million, HK$6.9 million and HK$0.3 million for FY2019, FY2020, 6M2020 and 6M2021, respectively.

The turnaround of the segment results of our e-commerce and other business from a loss of approximately HK$5.6 million for FY2018 to a profit of approximately HK$3.0 million for FY2019 was mainly attributable to (i) an increase in the segment gross profit of our e-commerce and other business of approximately HK$18.6 million, together with (ii) an increase in segment gross profit margin from approximately 49.4% to 53.4% as discussed above. Further, as compared to FY2018, in FY2019 our online platform usage fees only recorded a relatively small increment of approximately 4.6% as compared to the growth of approximately 15.6% in our revenue generated from online sales channels, primarily due to the fact that VIP.com, being the major growth driver of our revenue generated from online sales channels in FY2019, does not charge any online platform usage fee for our sales on this e-commerce platform. This also in part contributed to the turnaround of the segment results of our e-commerce and other business in FY2019.

The segment results of our e-commerce and other business further increased to approximately HK$11.9 million for FY2020 notwithstanding there was a decrease in segment gross profit of approximately HK$5.7 million in the same year, mainly as a result of (i) the decrease in segment employee benefit expenses of approximately HK$6.1 million, primarily attributable to a decrease in average headcount of our e-commerce and other business from approximately 109 employees in FY2019 to approximately 90 employees in FY2020, which reflected the downsizing of our offline sales operations in FY2020; (ii) a decrease in online platform usage fee of approximately HK$2.6 million, primarily attributable to the decrease in online sales of merchandise through e-commerce platforms, in particular Tmall; (iii) the decrease in segment promotion costs of approximately HK$2.5 million, mainly attributable to a decrease in advertising expenditures and promotional gift expenses as a result of the outbreak of COVID-19; and (iv) the grant of COVID-19 relief subsidies of approximately HK$1.1 million, being part of our other income for the year.

As compared to 6M2020, the segment results of our e-commerce and other business decreased by approximately HK$6.5 million to approximately HK$0.3 million for 6M2021, which was primarily attributable to (i) the increase in segment employee benefit expenses of approximately HK$2.5 million as a result of the salary increment of our Group in 6M2021; (ii) the increase in segment promotion costs of approximately HK$1.9 million as a result of our increased advertising and promotion activities including online advertisement and promotion of our Group's stores on HKTVmall and Douyin; (iii) the increase in segment office expenses of approximately HK$0.7 million, primarily as a result of the new offices rented in Hangzhou and Shenzhen in 6M2021; and (iv) an increase in segment building management fee and rental expenses of approximately HK$0.3 million. The aforesaid reasons also contributed to the decrease in segment margin of our e-commerce and other business (calculated by dividing segment results by segment revenue) from approximately 11.2% for 6M2020 to approximately 0.5% for 6M2021, and also in part explained the difference between the segment margin of approximately 8.8% for FY2020 and that of approximately 0.5% for 6M2021.

Other income

Our other income primarily includes income from sample sales of design prototypes, government subsidy and rental income from operating equipment. Our other income amounted to approximately HK$3.0 million, HK$6.1 million, HK$8.7 million, HK$3.6 million and HK$4.6 million for FY2018 to FY2020, 6M2020 and 6M2021, respectively.

Other (losses)/gains, net

Our net other gains or losses primarily consist of net foreign exchange gain or losses. Our net other losses amounted to approximately HK$1.2 million, HK$0.4 million and HK$0.7 million for FY2018, FY2019 and 6M2020, respectively. We recognised net other gains of approximately HK$3.1 million and HK$0.4 million for FY2020 and 6M2021, respectively.

Cost of inventories sold

Cost of inventories sold primarily represents the inventory costs of our e-commerce and other business, as well as provision (or write-back) for impairment of inventories. The following table sets forth a breakdown of our cost of inventories sold during the Track Record Period:

	FY2018		FY2019		FY2020		6M2020		6M2021	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Inventory costs	67,903	*97.9*	75,768	*100.0*	57,225	*100.0*	26,406	*100.0*	26,865	*97.1*
Provision for/(write-back of) impairment	1,471	*2.1*	(621)	*N/A (Note)*	(2,315)	*N/A (Note)*	(1,211)	*N/A (Note)*	803	*2.9*
Total	69,374	*100.0*	75,147	*100.0*	54,910	*100.0*	25,195	*100.0*	27,668	*100.0*

Note: N/A denotes not applicable as the calculation would produce anomalous result.

The write-back of impairment of inventories was primarily due to the sales of merchandises for which provision for impairment had been made in the preceding financial years.

Employee benefit expenses

Our Group's employee benefits expenses primarily consist of salaries, allowances and other employee benefits. For FY2018 to FY2020, 6M2020 and 6M2021, our employee benefit expenses amounted to approximately HK$42.9 million, HK$51.2 million, HK$42.3 million, HK$19.9 million and HK$29.9 million, respectively.

Listing expenses

Our listing expenses primarily include legal and other professional fees and other expenses associated with the preparation for the listing of our Group's business on the Stock Exchange. The listing expenses amounted to approximately HK$4.1 million, HK$8.8 million, HK$5.3 million, nil and HK$8.1 million for FY2018 to FY2020, 6M2020 and 6M2021, respectively.

Promotion costs

Our promotion costs primarily comprise costs incurred for promotional campaigns, advertisements, brand management and marketing activities. For FY2018 to FY2020, 6M2020 and 6M2021, our promotion costs amounted to approximately HK$18.0 million, HK$20.7 million, HK$15.9 million, HK$6.9 million and HK$8.1 million, respectively.

Online platform usage fee

Our online platform usage fee primarily represents sales commission and service fees payable to the e-commerce platforms for our online sales under our e-commerce and other business. For FY2018 to FY2020, 6M2020 and 6M2021, our online platform usage fee amounted to approximately HK$16.2 million, HK$17.0 million, HK$14.4 million, HK$6.7 million and HK$6.7 million, respectively.

Depreciation and amortisation

Our depreciation and amortisation primarily comprise (i) depreciation of property, plant and equipment; and (ii) depreciation of right-of-use assets relating to our leased offices, workshop and staff quarters. For FY2018 to FY2020, 6M2020 and 6M2021, our depreciation and amortisation amounted to approximately HK$7.8 million, HK$8.6 million, HK$10.1 million, HK$5.0 million and HK$4.7 million, respectively.

(Impairment losses)/reversal of impairment losses on financial and contract assets

Our impairment losses on financial and contract assets mainly represent the provision for expected credit loss arising from trade receivables and contract assets. For FY2018 to FY2020 and 6M2020, our impairment losses on financial and contract assets amounted to approximately HK$1.1 million, HK$2.2 million, HK$3.2 million and HK$1.6 million, respectively. We had reversal of impairment losses on financial and contract assets of approximately HK$1.9 million for 6M2021.

Other expenses

The following table sets forth a breakdown of our other expenses during the Track Record Period:

	FY2018		FY2019		FY2020		6M2020		6M2021	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Travelling and transportation	10,311	*42.5*	12,043	*43.9*	9,871	*39.0*	4,617	*41.4*	5,514	*30.6*
Office and office co-sharing expenses	2,828	*11.6*	3,724	*13.6*	3,802	*15.0*	1,308	*11.7*	2,323	*12.9*
Legal, audit and professional fee	3,418	*14.1*	5,661	*20.6*	5,596	*22.1*	2,260	*20.3*	6,043	*33.6*
Agency fee	1,942	*8.0*	1,185	*4.3*	832	*3.3*	477	*4.3*	911	*5.1*
Building management fee and rental expenses	1,737	*7.2*	1,729	*6.3*	1,305	*5.2*	482	*4.3*	1,097	*6.1*
Licensing fee	52	*0.2*	170	*0.6*	1,140	*4.5*	440	*3.9*	608	*3.4*
Others[(Note)]	3,989	*16.4*	2,910	*10.7*	2,748	*10.9*	1,573	*14.1*	1,501	*8.3*
	24,277	*100.0*	27,422	*100.0*	25,294	*100.0*	11,157	*100.0*	17,997	*100.0*

Note: Others include, among others, repair and maintenance, insurance expense, decoration expenses, sample fees, utilities and testing fee etc.

Legal, audit and professional fees mainly relates to audit fee and legal costs incurred in (i) the protection of trademarks, and (ii) legal proceedings of our Group. Agency fee represents (i) the commission of our licensing agents; (ii) licensing fee for the Licensed Characters obtained from independent licensors; and (iii) expenses incurred for the launching and licensing of Dong Duck.

Finance costs, net

Our net finance costs primarily comprise interest income from bank deposits, finance charges on lease liabilities and borrowing interest. For FY2018 to FY2020, 6M2020 and 6M2021, our net finance costs amounted to approximately HK$1.1 million, HK$1.6 million, HK$2.1 million, HK$1.1 million and HK$0.8 million, respectively.

Income tax expense

Our Group's income tax expense primarily includes Hong Kong profits tax, PRC corporate income tax and withholding tax. Our income tax expense amounted to approximately HK$8.0 million, HK$12.0 million, HK$17.4 million, HK$3.9 million and HK$9.1 million for FY2018 to FY2020, 6M2020 and 6M2021, respectively.

In accordance with the two-tiered profits tax regime effective from 1 January 2018, Hong Kong profits tax has been provided for at the rate of 8.25% on the first HK$2 million of the estimated assessable profit, and 16.5% on the remaining balance of the estimated assessable profits for the Track Record Period. The statutory income tax rate applicable to entities in the PRC is 25% during the Track Record Period.

We had no tax payable in tax jurisdictions other than Hong Kong and the PRC during the Track Record period. No overseas profits tax have been calculated as our Company incorporated in the Cayman Islands and Group companies incorporated in the BVI are exempted from tax.

REVIEW OF HISTORICAL RESULTS OF OPERATIONS

FY2018 compared to FY2019

Revenue

Our revenue increased by approximately HK$42.2 million or approximately 21.0% from approximately HK$200.9 million for FY2018 to approximately HK$243.0 million for FY2019, which was primarily attributable to the increase in revenue generated from our two business segments, namely character licensing business and e-commerce and other business.

By customers' geographical location

In terms of customers' geographical location, the increase in our revenue was mainly due to:

(i) *The PRC:* an increase in revenue generated from customers in the PRC by approximately HK$41.9 million or approximately 23.0% from approximately HK$182.3 million for FY2018 to approximately HK$224.2 million for FY2019, which was primarily attributable to (a) an increase in royalty income by approximately HK$17.6 million under our character licensing business, which was mainly due to the increase in the number of contracts which generated revenue and excess royalties received from our licensees as a result of their increased sales of goods or services featuring IP characters licensed by us; and (b) an increase in our sales in the PRC under our e-commerce and other business by approximately HK$24.3 million, which was mainly due to an increase in sales through e-commerce platforms including JD.com and VIP.com as we had devoted more resources on such e-commerce platforms;

(ii) *Hong Kong:* an increase in revenue generated from customers in Hong Kong by approximately HK$2.3 million or approximately 17.8% from approximately HK$13.0 million for FY2018 to approximately HK$15.3 million for FY2019, which was primarily attributable to (a) an increase in royalty income by approximately HK$1.8 million under our character licensing business, which was mainly due to an increase in the number of contracts which generated revenue; and (b) a slight increase in our sales in Hong Kong under our e-commerce and other business of approximately HK$0.5 million;

(iii) *Southeast Asia and Taiwan:* a decrease in revenue generated from customers in Southeast Asia (which include Singapore, Malaysia and other countries) and Taiwan by approximately HK$1.7 million or approximately 45.1% from approximately HK$3.7 million for FY2018 to approximately HK$2.0 million for FY2019, which was primarily attributable to a decrease in royalty income by approximately HK$1.4 million under our character licensing business, which was mainly due to a decrease in the average minimum guarantee of the character licensing contracts awarded in FY2019 as compared with those awarded in FY2018, notwithstanding the number of character licensing contracts awarded in FY2019 was more than that in FY2018;

(iv) *South Korea:* the revenue generated from customers in South Korea for FY2018 and FY2019 remained relatively stable at approximately HK$1.4 million and HK$1.2 million, respectively; and

(v) *Others:* the revenue generated from customers in other areas (which include Mexico, Peru and other countries) for FY2018 and FY2019 remained relatively stable at approximately HK$0.5 million and HK$0.3 million, respectively.

Revenue from character licensing business

By service type

In terms of service type, the increase in our revenue from character licensing business was mainly due to:

(i) *Merchandise licensing:* an increase in royalty income from merchandise licensing service by approximately HK$17.5 million or approximately 73.0% from approximately HK$23.9 million for FY2018 to approximately HK$41.4 million for FY2019, which was mainly attributable to (a) an increase in the number of contracts which generated revenue from 118 in FY2018 to 161 in FY2019. In this connection, the number of contracts awarded during the year increased from 54 in FY2018 to 87 in FY2019, which was primarily due to the increased demand for merchandise licensing services by our licensees; and (b) increase in the excess royalties charged from our licensees, which amounted to approximately HK$13.8 million for FY2019 as compared to approximately HK$3.7 million for FY2018, primarily due to our licensees' increase in sales of goods or services featuring IP characters licensed by us;

(ii) *LBE licensing:* an increase in royalty income from LBE licensing service by approximately HK$2.8 million or approximately 37.3% from approximately HK$7.5 million for FY2018 to approximately HK$10.4 million for FY2019, primarily due to an increase in the number of Buffy-themed restaurants from three restaurants as at 31 December 2018 to 17 restaurants as at 31 December 2019;

(iii) *Content and media licensing:* an increase in royalty income from content and media licensing service by approximately HK$2.0 million or approximately 39.2% from approximately HK$5.2 million for FY2018 to approximately HK$7.2 million for FY2019, primarily due to the increased royalty income from China Everbright Bank for licensing B.Duck Family Characters for use on credit cards following the full scale commencement of this collaboration in FY2018;

(iv) *Promotion licensing:* a decrease in royalty income from promotion licensing service by approximately HK$2.6 million or approximately 37.7% from approximately HK$7.0 million for FY2018 to approximately HK$4.4 million for FY2019, primarily due to the decrease in the minimum guarantee charged from approximately HK$6.2 million for FY2018 to approximately HK$3.7 million for FY2019. The minimum guarantee charged for promotion licensing contract is generally commensurate with the scale of the promotion activities concerned. As the promotion licensing contracts awarded in FY2019 generally related to promotion activities of smaller scale compared with those awarded in FY2018, there was a decrease in minimum guarantee charged as described above notwithstanding the number of promotion licensing contracts awarded during the year increased from 14 in FY2018 to 18 in FY2019; and

(v) *Design consultation:* a decrease in service fee from design consultation service by approximately HK$1.9 million or approximately 9.3% from approximately HK$20.1 million for FY2018 to approximately HK$18.3 million for FY2019. Such decrease was primarily due to the completion of the design consultation service contract entered into with Nanjing Overseas Chinese Town for its B.Duck-featured theme park with a contract sum of approximately HK$6.7 million in FY2018, such that there was a decrease in average revenue recognised per design consultation contract in FY2019 notwithstanding there was an increase in the number of design consultation contracts awarded during the year from 39 in FY2018 to 51 in FY2019.

By IP character

In terms of IP character, the increase in our revenue from character licensing business was mainly due to:

(i) *B.Duck:* an increase in revenue attributable to B.Duck by approximately HK$7.7 million or approximately 14.2% from approximately HK$53.9 million for FY2018 to approximately HK$61.6 million for FY2019. Such increase was primarily attributable to (a) an increase in the number of contracts which generated revenue from 162 in FY2018 to 200 in FY2019; and (b) an increase in excess royalties received from our licensees as a result of their increased sales of goods or services featuring B.Duck;

(ii) *Buffy:* an increase in revenue attributable to Buffy by approximately HK$2.5 million or approximately 41.8% from approximately HK$6.1 million for FY2018 to approximately HK$8.6 million for FY2019. Such increase was primarily attributable to the increase in the number of contracts which generated revenue from 19 in FY2018 to 24 in FY2019, amongst which included 11 LBE licensing contracts in respect of Buffy-themed restaurants and/or catering services;

(iii) *B.Duck Baby:* an increase in revenue attributable to B.Duck Baby by approximately HK$4.5 million or approximately 133.2% from approximately HK$3.4 million for FY2018 to approximately HK$7.8 million for FY2019. Such increase was primarily attributable to (a) an increase in the number of contracts which generated revenue from 10 in FY2018 to 22 in FY2019; and (b) an increase in royalty income attributable to babies and infants personal products by approximately HK$1.8 million which are consistent with the image of B.Duck Baby;

(iv) *Bath'N Duck:* an increase in revenue attributable to Bath'N Duck from nil for FY2018 to approximately HK$2.3 million for FY2019, as we only rebranded and relaunched the same in FY2019, where it was primarily licensed for use in relation to male apparel and accessories;

(v) *Dong Duck:* an increase in revenue attributable to Dong Duck from nil for FY2018 to approximately HK$0.4 million for FY2019, as Dong Duck was only commercially launched in FY2019 where it was primarily licensed for use in relation to consumer electronics and homestyle and living products; and

(vi) *Licensed Characters:* an increase in revenue attributable to Licensed Characters by approximately HK$0.4 million or approximately 86.5% from approximately HK$0.5 million for FY2018 to approximately HK$0.9 million for FY2019. Such increase was primarily attributable to an increase in minimum guarantee charged from our licensees.

Revenue from e-commerce and other business

Our revenue generated from e-commerce and other business increased by approximately HK$24.4 million or approximately 17.8% from approximately HK$137.0 million for FY2018 to approximately HK$161.4 million for FY2019. Such increase was primarily attributable to the increase in sales through online sales channels from approximately HK$120.2 million in FY2018 to approximately HK$138.9 million in FY2019, mainly due to (i) our increase in sales on JD.com and VIP.com as a result of our devotion of more resources on these e-commerce platforms; and (ii) an increase in sales on Tmall, only to a lesser extent.

Segment gross profit and segment gross profit margin of our e-commerce and other business

The segment gross profit of our e-commerce and other business increased from approximately HK$67.7 million for FY2018 to approximately HK$86.3 million for FY2019, which was generally in line with the increase in revenue generated from the e-commerce and other business for the same period. The segment gross profit margin increased from approximately 49.4% for FY2018 to approximately 53.4% for FY2019, which was attributable to, among others, (i) the decrease in average procurement costs per unit for apparel from approximately HK$82.5 to approximately HK$76.0, as we enjoyed bulk purchase discounts due to the increase in inventory procurement volume in FY2019 to cope with the growth in our e-commerce and other business. In this connection, apparel accounted for approximately 62.0% and 65.1% of our total inventory procurement costs for FY2018 and FY2019, respectively; (ii) the increase in our sales of apparel from approximately HK$92.9 million in FY2018 to approximately HK$114.4 million in FY2019, which corresponded to approximately 67.8% and 70.9% of our revenue under our e-commerce and other business for FY2018 and FY2019, respectively. In this connection, apparel had a higher gross profit margin as compared to other products, in part due to the decrease in average unit procurement costs for apparel in FY2019 as discussed above; and (iii) we recorded write-back of impairment of inventories of approximately HK$0.6 million for FY2019, as opposed to a provision for impairment of inventories of approximately HK$1.5 million for FY2018, which were reflected in our cost of inventories sold for the corresponding periods. Such increase in segment gross profit margin and the corresponding increase in gross profit contributed to the turnaround of the segment results of our e-commerce and other business from a loss of approximately HK$5.6 million for FY2018 to a profit of approximately HK$3.0 million for FY2019.

Segment results of our e-commerce and other business

The turnaround of the segment results of our e-commerce and other business from a loss of approximately HK$5.6 million for FY2018 to a profit of approximately HK$3.0 million for FY2019 was mainly attributable to (i) an increase in the segment gross profit of our e-commerce and other business of approximately HK$18.6 million, together with (ii) an increase in segment gross profit margin from approximately 49.4% to 53.4% as discussed above. Further, as compared to FY2018, in FY2019 our online platform usage fees only recorded a relatively small increment of approximately 4.6% as compared to the growth of approximately 15.6% in our revenue generated from online sales channels, primarily due to the fact that VIP.com, being the major growth driver of our revenue generated from online sales channels in FY2019, does not charge any online platform usage fee for our sales on this e-commerce platform. This also in part contributed to the turnaround of the segment results of our e-commerce and other business in FY2019.

Other income

Our other income increased by approximately HK$3.1 million or approximately 102.4% from approximately HK$3.0 million for FY2018 to approximately HK$6.1 million for FY2019. Such increase was mainly due to (i) increase in sample sales (inclusive of the sales of hologram stickers) by approximately HK$0.8 million, which was in line with the growth of our merchandise licensing service; (ii) an increase in government subsidies by approximately HK$1.1 million; and (iii) increase in rental income from nil to approximately HK$1.4 million, which was attributable to the leasing of fibre-reinforced plastic figures of our IP characters to a licensee of our LBE licensing service.

Other losses, net

Our other losses decreased by approximately HK$0.8 million or approximately 63.4% from approximately HK$1.2 million for FY2018 to approximately HK$0.4 million for FY2019. Such decrease was primarily attributable to the decrease in net foreign exchange losses by approximately HK$0.8 million resulting from a general increase in exchange rate between HKD and RMB in FY2019 compared to that in FY2018.

Costs of inventories sold

Our costs of inventories sold increased by approximately HK$5.8 million or approximately 8.3% from approximately HK$69.4 million for FY2018 to approximately HK$75.1 million for FY2019. Such increase was primarily attributable to an increase in merchandise procurement, which was in line with the growth of our sales in our e-commerce and other business.

Employee benefit expenses

Our employee benefit expenses increased by approximately HK$8.3 million or approximately 19.4% from approximately HK$42.9 million for FY2018 to approximately HK$51.2 million for FY2019. Such increase was mainly due to the increase in average headcount from approximately 186 employees in FY2018 to approximately 211 employees in FY2019.

Promotion costs

Our promotion costs increased by approximately HK$2.6 million or approximately 14.6% from approximately HK$18.0 million for FY2018 to approximately HK$20.7 million for FY2019. Such increase was mainly due to an increase in advertising expenditures and promotional gift expenses.

Online platform usage fee

Our online platform usage fee increased by approximately HK$0.7 million or approximately 4.6% from approximately HK$16.2 million for FY2018 to approximately HK$17.0 million for FY2019, which was primarily due to the increase in online sales through e-commerce platforms.

Depreciation and amortisation

Our depreciation and amortisation increased by approximately HK$0.8 million or approximately 10.5% from approximately HK$7.8 million for FY2018 to approximately HK$8.6 million for FY2019. Such increase was mainly due to (i) the increase in depreciation of property, plant and equipment of approximately HK$0.4 million arising from additional office equipment acquired in FY2019; and (ii) the increase in depreciation of right of use assets of approximately HK$0.4 million primarily related to the increase in office space rented in FY2019.

Impairment losses on financial and contract assets

Our impairment losses on financial and contract assets increased by approximately HK$1.1 million or approximately 97.7% from approximately HK$1.1 million for FY2018 to approximately HK$2.2 million for FY2019. Such increase was primarily attributable to the increase in the aggregate balance of trade receivables and contract assets (before loss allowance) from approximately HK$27.8 million as at 31 December 2018 to approximately HK$40.9 million as at 31 December 2019.

Other expenses

Our other expenses increased by approximately HK$3.1 million or approximately 13.0% from approximately HK$24.3 million for FY2018 to approximately HK$27.4 million for FY2019. Such increase was mainly due to an increase in (i) travelling and transportation expenses of approximately HK$1.7 million; (ii) legal, audit and professional fee of approximately HK$2.2 million primarily in part due to our increase in the number of trademark applications made during FY2019; (iii) office and office co-sharing expenses of approximately HK$0.9 million primarily due to the increase in office space rented, and partly offset by the decrease in (i) other expenses of approximately HK$1.1 million; and (ii) agency fee of approximately HK$0.8 million as a result of the decreased revenue from overseas licensing activities.

Income tax expense

Our income tax expense increased by approximately HK$4.1 million or approximately 50.7% from approximately HK$8.0 million for FY2018 to approximately HK$12.0 million for FY2019, which was mainly due to an increase in profit before income tax.

Profit for the year attributable to owners of our Company

As a result of the foregoing, profit attributable to owners of our Company increased by approximately HK$14.2 million or approximately 144.4% from approximately HK$9.9 million for FY2018 to approximately HK$24.1 million for FY2019. Our net profit margin increased from approximately 4.9% for FY2018 to approximately 9.9% for FY2019. Our adjusted net profit under non-HKFRS financial measures increased from approximately HK$14.0 million for FY2018 to approximately HK$32.9 million for FY2019, and our adjusted net profit margin under non-HKFRS financial measures increased from approximately 7.0% for FY2018 to approximately 13.5% for FY2019.

FY2019 compared to FY2020

Revenue

Our revenue decreased by approximately HK$9.5 million or approximately 3.9% from approximately HK$243.0 million for FY2019 to approximately HK$233.5 million for FY2020. Such decrease was primarily attributable to the decrease in revenue generated from our e-commerce and other business of approximately HK$25.9 million, and partly offset by the increase in revenue generated from our character licensing business of approximately HK$16.4 million.

By customers' geographical location

In terms of customers' geographical location, the decrease in our revenue was mainly due to:

(i) *The PRC:* an increase in revenue generated from customers in the PRC by approximately HK$2.9 million or approximately 1.3% from approximately HK$224.2 million for FY2019 to approximately HK$227.2 million for FY2020, which was primarily attributable to an increase in royalty income by approximately HK$21.1 million under our character licensing business, which was mainly due to the increase in excess royalties received from our licensees as a result of their increased sales of goods or services featuring IP characters licensed by us, and partly offset by the decrease in our sales in the PRC under our e-commerce and other business by approximately HK$18.1 million, which was mainly due to the outbreak of COVID-19, as well as the downsizing of our offline sales operations;

(ii) *Hong Kong:* a decrease in revenue generated from customers in Hong Kong by approximately HK$11.0 million or approximately 72.0% from approximately HK$15.3 million for FY2019 to approximately HK$4.3 million for FY2020, which was primarily attributable to (a) a decrease in royalty income by approximately HK$3.3 million under our character licensing business, which was mainly due to the outbreak of COVID-19 resulting in a generally negative market sentiment as observed by our Directors; and (b) a decrease in our sales in Hong Kong by approximately HK$7.7 million, which was mainly due to the outbreak of COVID-19, as well as the downsizing of our offline sales operations;

(iii) *Southeast Asia and Taiwan:* the revenue generated from customers in Southeast Asia (which include Singapore, Malaysia and other countries) and Taiwan for FY2019 and FY2020 remained relatively stable at approximately HK$2.0 million and HK$1.7 million, respectively;

(iv) *South Korea:* a decrease in revenue generated from customers in South Korea by approximately HK$1.1 million or approximately 94.6% from approximately HK$1.2 million for FY2019 to approximately HK$65,000 for FY2020, primarily due to the decrease in licensing activities by our licensing agent as a result of the outbreak of COVID-19; and

(v) *Others:* the revenue generated from customers in other areas (which include Mexico, Peru and other countries) for FY2019 and FY2020 remained relatively stable at approximately HK$0.3 million and HK$0.3 million, respectively.

Revenue from character licensing business

By service type

In terms of service type, the increase in our revenue from character licensing business was mainly due to:

(i) *Merchandise licensing:* an increase in royalty income from merchandise licensing service by approximately HK$22.0 million or approximately 53.0% from approximately HK$41.4 million for FY2019 to approximately HK$63.4 million for FY2020, primarily attributable to an increase in excess royalties charged from licensees by approximately HK$17.2 million from approximately HK$13.8 million for FY2019 to approximately HK$31.1 million for FY2020, which was mainly due to the increase in sales of licensed products by our licensees. Our Directors believe that the increase in sales of our licensees under the backdrop of outbreak of COVID-19 in FY2020 was mainly attributable to their expansion and/or diversification of both online and offline sales channels and networks, in particular the use of live streaming marketing campaigns on various social media platforms which allowed continued exposures to consumers under the tightened social distancing measures for preventing the spread of COVID-19, which outweighed the negative effect of the decrease in consumer spending due to COVID-19. As such, we recorded a considerable growth in royalty income from our merchandise licensing service notwithstanding there was a decrease in the number of contracts awarded during the year from 87 in FY2019 to 75 in FY2020;

(ii) *LBE licensing:* the royalty income from LBE licensing service remained relatively stable for FY2019 and FY2020 at approximately HK$10.4 million and HK$10.4 million, respectively. While three LBE licensing contracts (amongst which one relates to Buffy-themed restaurants) were early terminated in FY2020 in light of the outbreak of COVID-19, we were able to enter into new LBE licensing contract with a private PRC food and beverages operator in respect of B.Duck-featured modern teahouses in the PRC. In light of the aforesaid, our royalty income from LBE licensing services remained relatively stable for FY2019 and FY2020;

(iii) *Content and media licensing:* a decrease in royalty income from content and media licensing service by approximately HK$1.6 million or approximately 21.9% from approximately HK$7.2 million for FY2019 to approximately HK$5.6 million for FY2020, primarily due to the approximately three months delay in renewal of our content and media licensing contract with China Everbright Bank in respect of the licensing of B.Duck Family Characters for use on credit cards due to the administrative inconvenience caused by the outbreak of COVID-19, and hence a shortened licensing period which led to a proportional reduction in the minimum guarantee receivable by us;

(iv) *Promotion licensing:* a decrease in royalty income from promotion licensing service by approximately HK$1.2 million or approximately 27.1% from approximately HK$4.4 million for FY2019 to approximately HK$3.2 million for FY2020. Such decrease was mainly attributable to the decrease in the number of revenue generating contracts from 29 in FY2019 to 15 in FY2020. Such decrease corresponded with the drop in contract awarded during the year from 18 in FY2019 to seven in FY2020 in light of the outbreak of COVID-19 in FY2020, which resulted in a more restricted promotion budget of corporates in general in the PRC and Hong Kong as concurred by Frost & Sullivan; and

(v) *Design consultation:* a decrease in service fee from design consultation service by approximately HK$2.8 million or approximately 15.2% from approximately HK$18.3 million for FY2019 to approximately HK$15.5 million for FY2020, which was in line with the decrease in the number of contracts awarded during the year from 51 in FY2019 to 42 in FY2020, partly because of the one-off nature of design consultation service.

By IP character

In terms of IP character, the increase in our revenue from character licensing business was mainly due to:

(i) *B.Duck:* an increase in revenue attributable to B.Duck by approximately HK$13.5 million or approximately 21.9% from approximately HK$61.6 million for FY2019 to approximately HK$75.0 million for FY2020. Such increase was primarily attributable to (a) an increase in excess royalties charged from our licensees due to their increased sales of B.Duck-featured products; and (b) an increase in minimum guarantee from a LBE licensing contract awarded in FY2020 in respect of B.Duck-featured modern teahouses in the PRC;

(ii) *Buffy:* a decrease in revenue attributable to Buffy by approximately HK$0.8 million or approximately 9.2% from approximately HK$8.6 million for FY2019 to approximately HK$7.8 million for FY2020. The revenue attributable to Buffy was higher in FY2019 primarily due to (a) the recognition of service fee for our design consultation service for Buffy-themed restaurants in FY2019, where such service was one-off in nature; and (b) the early termination of one LBE licensing contract that relates to Buffy-themed restaurants and the close down of a number of Buffy-themed restaurants in FY2020 in light of the outbreak of COVID-19;

(iii) *B.Duck Baby:* an increase in revenue attributable to B.Duck Baby by approximately HK$5.6 million or approximately 72.1% from approximately HK$7.8 million for FY2019 to approximately HK$13.5 million for FY2020. Such increase was primarily attributable to an increase in excess royalties attributable to the sales of babies and infants personal products featuring B.Duck Baby by our licensees;

(iv) *Bath'N Duck:* a decrease in revenue attributable to Bath'N Duck by approximately HK$1.6 million or approximately 68.7% from approximately HK$2.3 million to approximately HK$0.7 million. The revenue attributable to Bath'N Duck was higher in FY2019 primarily because of (a) the recognition of service fee for our design consultation service for Bath'N Duck featured merchandises in FY2019, where such service was one-off in nature; and (b) there being no contract awarded in FY2020;

(v) *Dong Duck:* a decrease in revenue attributable to Dong Duck by approximately HK$0.2 million or approximately 64.1% from approximately HK$0.4 million for FY2019 to approximately HK$0.1 million for FY2020. Such decrease was primarily attributable to the reduction in the number of revenue generating contracts from three in FY2019 to two in FY2020, mainly due to the fact that our brand building and promotion efforts were focused on other IP characters; and

(vi) *Licensed Characters:* the revenue generated from Licensed Characters for FY2019 and FY2020 remained relatively stable at approximately HK$0.9 million and HK$0.9 million, respectively.

Revenue from e-commerce and other business

Our revenue generated from e-commerce and other business decreased by approximately HK$25.9 million or approximately 16.1% from approximately HK$161.4 million for FY2019 to approximately HK$135.5 million for FY2020. Such decrease was primarily attributable to (i) a decrease in our sales through offline sales channels by approximately HK$16.9 million from approximately HK$22.5 million for FY2019 to approximately HK$5.6 million for FY2020, which was mainly due to the downsizing of our offline sales operations with a view to focus our resources on e-commerce, particularly in light of the change in consumer habit due to the outbreak of COVID-19; and (ii) a decrease in our sales through online sales channels by approximately HK$9.0 million from approximately HK$138.9 million for FY2019 to approximately HK$129.9 million for FY2020. Our Directors consider that such decrease was primarily due to (a) the decrease in consumer spending due to the outbreak of COVID-19 notwithstanding there was an increase in the penetration rate of e-commerce due to the outbreak of COVID-19 according to the Frost & Sullivan Report. Our Directors believe that this was because our e-commerce business primarily focused on typical sales through traditional e-commerce platforms such as Tmall and JD.com, such that we were not able to capture the business opportunities and consumer demand presented on other types of e-commerce platform and in particular live streaming platforms, or to otherwise ride on the emerging trend of live streaming e-commerce, which according to the Frost & Sullivan Report had enjoyed rapid and substantial growth in the PRC during 2020; and (b) our adoption of a more reserved merchandise procurement policy (in terms of both volume and type of merchandise) with a view to minimise the risk of obsolete stock in contemplation of a decrease in market demand due to the outbreak of COVID-19, which in turn also limited our sales volume for FY2020.

Segment gross profit and segment gross profit margin of our e-commerce and other business

The segment gross profit of our e-commerce and other business decreased from approximately HK$86.3 million for FY2019 to approximately HK$80.6 million for FY2020, which was generally in line with the decrease in revenue generated from the e-commerce and other business for the same period. The segment gross profit margin increased from approximately 53.4% for FY2019 to approximately 59.5% for FY2020, which was attributable to, among others, (i) the fact that our sales during FY2020 focused on apparel which had a higher gross profit margin of approximately 63.1% as compared to other products. In this connection, apparel accounted for approximately 80.3% of our revenue under our e-commerce and other business, and approximately 74.8% of our total inventory procurement costs for FY2020. As compared to the gross profit margin of approximately 58.8% for FY2019, the higher gross profit margin of apparel for FY2020 was in part due to the decrease in average unit procurement cost of apparel of approximately 8.4% in FY2020, which, as we understood from our suppliers, was mainly due to the general decrease in the costs of raw materials such as cotton and fabrics in the PRC in the range of approximately 9.2% to 23.9% in FY2020 as compared to FY2019 as confirmed by Frost & Sullivan; and (ii) we recorded a higher write-back of impairment of inventories of approximately HK$2.3 million for FY2020, as compared to that of approximately HK$0.6 million for FY2019.

Segment results of our e-commerce and other business

As compared to FY2019, the segment results of our e-commerce and other business increased by approximately HK$8.9 million to approximately HK$11.9 million for FY2020, notwithstanding there was a decrease in segment gross profit of approximately HK$5.7 million in the same year. This was primarily attributable to (i) the decrease in segment employee benefit expenses of approximately HK$6.1 million, primarily attributable to a decrease in average headcount of our e-commerce and other business from approximately 109 employees in FY2019 to approximately 90 employees in FY2020, which reflected the downsizing of our offline sales operations in FY2020; (ii) a decrease in online platform usage fee of approximately HK$2.6 million, primarily attributable to the decrease in online sales of merchandise through e-commerce platforms, in particular Tmall; (iii) the decrease in segment promotion costs of approximately HK$2.5 million, mainly attributable to a decrease in advertising expenditures and promotional gift expenses as a result of the outbreak of COVID-19; and (iv) the grant of COVID-19 relief subsidies of approximately HK$1.1 million, being part of our other income for FY2020.

Other income

Our other income increased by approximately HK$2.6 million or approximately 42.2% from approximately HK$6.1 million for FY2019 to approximately HK$8.7 million for FY2020. Such increase was primarily attributable to (i) an increase in government subsidies by approximately HK$1.9 million for FY2020, primarily representing subsidies for minimising the impact of COVID-19; and (ii) an increase in sample sales (inclusive of the sales of hologram stickers) by approximately HK$1.1 million for FY2020, which was in line with the growth of our merchandise licensing service, and partly offset by a decrease in rental income to nil for FY2020 from approximately HK$1.4 million for FY2019 due to the non-recurring nature of the leasing of fibre-reinforced plastic figures of our IP characters in FY2019.

Other (losses)/gains, net

We recognised net other losses of approximately HK$0.4 million for FY2019, and net other gains of approximately HK$3.1 million for FY2020. The change in position was mainly attributable to our recognition of net foreign exchange gain of approximately HK$3.4 million for FY2020 comparing to the net foreign exchange loss of approximately HK$0.5 million incurred for FY2019.

Costs of inventories sold

Our costs of inventories sold decreased by approximately HK$20.2 million or approximately 26.9% from approximately HK$75.1 million for FY2019 to approximately HK$54.9 million for FY2020, reflecting our decrease in sales under our e-commerce and other business for FY2020 comparing to that in FY2019.

Employee benefit expenses

Our employee benefit expenses decreased by approximately HK$8.9 million or approximately 17.3% from approximately HK$51.2 million for FY2019 to approximately HK$42.3 million for FY2020. Such decrease was primarily attributable to the decrease in our average headcount from approximately 211 employees in FY2019 to approximately 194 employees in FY2020.

Promotion costs

Our promotion costs decreased by approximately HK$4.8 million or approximately 23.2% from approximately HK$20.7 million for FY2019 to approximately HK$15.9 million for FY2020. Such decrease was primarily attributable to a decrease in advertising expenditures and promotional gift expenses as a result of the outbreak of COVID-19.

Online platform usage fee

Our online platform usage fee decreased by approximately HK$2.6 million or approximately 15.3% from approximately HK$17.0 million for FY2019 to approximately HK$14.4 million for FY2020, which was primarily attributable to due to the decrease in online sales of merchandise through e-commerce platforms, in particular Tmall.

Depreciation and amortisation

Our depreciation and amortisation increased by approximately HK$1.5 million or approximately 17.0% from approximately HK$8.6 million for FY2019 to approximately HK$10.1 million for FY2020. Such increase was primarily attributable to an increase in depreciation costs with respect to property, plant and equipment in FY2020.

(Impairment losses)/reversal of impairment losses on financial and contract assets

Our impairment losses on financial and contract assets increased by approximately HK$1.0 million or approximately 45.9% from approximately HK$2.2 million for FY2019 to approximately HK$3.2 million for FY2020. Such increase was primarily attributable to the change in position from a reversal for loss allowance of contract assets of approximately HK$0.2 million for FY2019 to a provision for loss allowance of contract assets of approximately HK$0.7 million for FY2020.

Other expenses

Our other expenses decreased by approximately HK$2.1 million or approximately 7.8% from approximately HK$27.4 million for FY2019 to approximately HK$25.3 million for FY2020. Such decrease was primarily attributable to a decrease in travelling and transportation expenses of approximately HK$2.2 million mainly due to the less frequent business travelling of staff due to the outbreak of COVID-19, and partly offset by an increase in licensing fee of approximately HK$1.0 million, mainly payable to our licensing partners, namely Beijing Imperial Palace Culture Development Co., Ltd.* (北京故宮宮廷文化發展有限公司) and Liou Brand Management (Shanghai) Limited* (利鷗品牌策劃(上海)有限公司), in respect of our own sales of B.Duck featured products developed under our collaboration with them.

Income tax expense

Our income tax expense increased by approximately HK$5.3 million or approximately 44.4% from approximately HK$12.0 million for FY2019 to approximately HK$17.4 million for FY2020. Such increase was primarily attributable to the increase in profit before income tax.

Profit for the year attributable to owners of our Company

As a result of the foregoing, profit attributable to owners of our Company increased by approximately HK$30.4 million or approximately 126.3% from approximately HK$24.1 million for FY2019 to approximately HK$54.5 million for FY2020. Our net profit margin increased from approximately 9.9% for FY2019 to approximately 23.4% for FY2020. Our adjusted net profit under non-HKFRS financial measures increased from approximately HK$32.9 million for FY2019 to approximately HK$59.8 million for FY2020, and our adjusted net profit margin under non-HKFRS financial measures increased from approximately 13.5% for FY2019 to approximately 25.6% for FY2020.

6M2020 compared to 6M2021

Revenue

Our revenue increased by approximately HK$30.9 million or approximately 33.3% from approximately HK$92.9 million for 6M2020 to approximately HK$123.8 million as compared to 6M2021, which was primarily attributable to the increase in revenue generated from our character licensing business and e-commerce and other business.

By customers' geographical location

In terms of customers' geographical location, the increase in our revenue was mainly due to:

(i) *The PRC*: an increase in revenue generated from customers in the PRC by approximately HK$29.7 million or approximately 33.1% from approximately HK$89.6 million for 6M2020 to approximately HK$119.2 million for 6M2021, which was primarily attributable to an increase in revenue by approximately HK$27.8 million under our character licensing business, mainly as a result of (a) the increase in the number of revenue generating contracts leading to an increase in minimum guarantee and design consultation service fee recognised by approximately HK$10.4 million and HK$7.0 million, respectively; and (b) the increase in excess royalties from our licensees by approximately HK$10.3 million, primarily attributable to their increased sales of goods or services featuring IP characters licensed by us;

(ii) *Hong Kong*: an increase in revenue generated from customers in Hong Kong by approximately HK$1.6 million or approximately 77.5% from approximately HK$2.1 million for 6M2020 to approximately HK$3.7 million for 6M2021, which was primarily attributable to an increase in our sales in Hong Kong under our e-commerce and other business by approximately HK$1.3 million, mainly due to (a) an increase in sales through HKTVmall by approximately HK$0.4 million, which we only commenced sales during the second half of FY2020; and (b) an increase in bulk purchase by a corporate customer operating a chain-style indoor amusement park in Hong Kong by approximately HK$0.7 million, which our Directors believe was attributable to the relaxation of the COVID-19 pandemic control measures in Hong Kong in 6M2021 as compared to 6M2020;

(iii) *Southeast Asia and Taiwan*: the revenue generated from customers in Southeast Asia (which include Singapore, Malaysia and other countries) and Taiwan for 6M2020 and 6M2021 remained relatively stable at approximately HK$1.0 million and HK$0.8 million, respectively;

(iv) *South Korea*: a decrease in revenue generated from customers in South Korea from approximately HK$65,000 for 6M2020 to nil for 6M2021, as no new licensing contract had been entered into in 6M2021 after the expiration of all licensing contracts in 2020, primarily attributable to the sustained local outbreak of COVID-19 in South Korea, which resulted in a negative impact on the business appetite and confidence of the licensing industry in South Korea as a whole as confirmed by Frost & Sullivan; and

(v) *Others*: the revenue generated from customers in other areas (which include Mexico, Peru and other countries) for 6M2020 and 6M2021 remained relatively stable at approximately HK$0.1 million and HK$0.1 million, respectively.

Revenue from character licensing business

By service type

In terms of service type, the increase in our revenue from character licensing business was mainly due to:

(i) *Merchandise licensing*: an increase in royalty income from merchandise licensing service by approximately HK$16.6 million or approximately 72.2% from approximately HK$23.0 million for 6M2020 to approximately HK$39.6 million for 6M2021, which was primarily attributable to (a) an increase in the number of contracts which generated revenue from 149 in 6M2020 to 171 in 6M2021, which led to the increase in minimum guarantee recognised by our Group by approximately HK$7.4 million; and (b) an increase in the excess royalties charged from our licensees from approximately HK$7.8 million for 6M2020 to approximately HK$17.0 million for 6M2021, primarily due to the increase in sales of licensed products by our licensees;

(ii) *LBE licensing*: an increase in royalty income from LBE licensing service by approximately HK$3.3 million or approximately 195.2% from approximately HK$1.7 million for 6M2020 to approximately HK$5.0 million for 6M2021, which was primarily attributable to the royalty income generated from our LBE licensing contract with respect to B.Duck-featured modern teahouses in the PRC, which was only entered into in June 2020;

(iii) *Content and media licensing*: an increase in royalty income from content and media licensing service by approximately HK$0.4 million or approximately 58.8% from approximately HK$0.7 million for 6M2020 to approximately HK$1.1 million for 6M2021, which was primarily attributable to the content and media licensing contract entered into with a new licensee in respect of educational materials in 6M2021 with a contract sum of approximately HK$1.0 million, such that there was an increase in the average minimum guarantee recognised per content and media licensing contract in 6M2021 notwithstanding the number of revenue generating contracts decreased from five in 6M2020 to three in 6M2021;

(iv) *Promotion licensing*: the royalty income from promotion licensing service remained relatively stable for 6M2020 and 6M2021, which amounted to approximately HK$1.2 million and HK$1.3 million, respectively; and

(v) *Design consultation*: an increase in service fee from design consultation service by approximately HK$7.2 million or approximately 153.3% from approximately HK$4.7 million for 6M2020 to approximately HK$11.9 million for 6M2021, which was primarily attributable to an increase in the number of contracts which generated revenue from 92 in 6M2020 to 127 in 6M2021.

By IP character

In terms of IP character, the increase in our revenue from character licensing business was mainly due to:

(i) *B.Duck*: an increase in revenue attributable to B.Duck by approximately HK$16.7 million or approximately 62.5% from approximately HK$26.7 million for 6M2020 to approximately HK$43.4 million for 6M2021, which was primarily attributable to (a) an increase in excess royalties received from our licensees under our merchandise licensing services due to their increased sales of B.Duck-featured products; and (b) the increase in royalty income from the LBE licensing contract in respect of B.Duck-featured modern teahouses in the PRC, which was only entered into in June 2020;

(ii) *Buffy:* an increase in revenue attributable to Buffy by approximately HK$2.1 million or approximately 182.2% from approximately HK$1.2 million for 6M2020 to approximately HK$3.3 million for 6M2021, which was primarily attributable to the recognition of design consultation service fee and royalty income under a merchandise licensing contract featuring Buffy, which was entered into in 6M2021 with a total contract sum of approximately HK$3.2 million;

(iii) *B.Duck Baby*: an increase in revenue attributable to B.Duck Baby by approximately HK$8.0 million or approximately 331.2% from approximately HK$2.4 million for 6M2020 to approximately HK$10.5 million for 6M2021, mainly due to a significant increase in excess royalties charged from our licensees of approximately HK$6.8 million, primarily attributable to the sales of babies and infants personal products featuring B.Duck Baby by our licensees in 6M2021;

(iv) *Bath'N Duck*: the revenue attributable to Bath'N Duck for 6M2020 and 6M2021 remained relatively stable at approximately HK$0.4 million and HK$0.4 million, respectively;

(v) *Dong Duck*: an increase in revenue attributable to Dong Duck by approximately HK$1.1 million or approximately 1,362.0% from approximately HK$79,000 for 6M2020 to approximately HK$1.2 million for 6M2021, which was primarily attributable to the royalty income generated from the merchandise licensing contract entered into with an international fashion brand with a contract sum of approximately HK$0.6 million, which only started generating revenue in December 2020; and

(vi) *Licensed Characters*: a decrease in revenue attributable to the Licensed Characters by approximately HK$0.3 million or approximately 47.3% from approximately HK$0.5 million for 6M2020 to approximately HK$0.3 million as compared to 6M2021, primarily attributable to the expiration of a merchandise licensing contract with a contract sum of approximately HK$1.2 million in January 2021.

Revenue from e-commerce and other business

Our revenue generated from e-commerce and other business increased by approximately HK$3.2 million or approximately 5.2% from approximately HK$61.6 million for 6M2020 to approximately HK$64.8 million for 6M2021. Such increase was primarily attributable to (a) an increase in bulk purchase by a corporate customer operating a chain-style indoor amusement park in Hong Kong by approximately HK$0.7 million, which our Directors believe was attributable to the relaxation of the COVID-19 pandemic control measures in Hong Kong in 6M2021 as compared to 6M2020; and (b) an increase in our sales on e-commerce platforms including (i) VIP.com, where our Directors believe such increase in sales was attributable to the growth of business of this e-commerce platform in 6M2021; and (ii) Douyin, where we only commenced sales through this live streaming platform in 6M2021.

Segment gross profit and segment gross profit margin of our e-commerce and other business

The segment gross profit of our e-commerce and other business increased from approximately HK$36.4 million for 6M2020 to approximately HK$37.1 million for 6M2021, which was primarily attributable to the increase in revenue generated from the e-commerce and other business for the same period. The segment gross profit margin decreased from approximately 59.1% for 6M2020 to approximately 57.3% for 6M2021. Such decrease was mainly attributable to the fact that there was a provision for impairment of inventories of approximately HK$0.8 million for 6M2021, which has been recognised as our cost of inventories sold, as opposed to the write-back of impairment of inventories of approximately HK$1.2 million for 6M2020, such that there was an increase in our cost of inventories sold for 6M2021 as compared to 6M2020.

Segment results of our e-commerce and other business

As compared to 6M2020, the segment results of our e-commerce and other business decreased by approximately HK$6.5 million to approximately HK$0.3 million for 6M2021, which was primarily attributable to (i) the increase in segment employee benefit expenses of approximately HK$2.5 million as a result of the salary increment of our Group in 6M2021; (ii) the increase in segment promotion costs of approximately HK$1.9 million as a result of our increased advertising and promotion activities including online advertisement and promotion of our Group’s stores on HKTVmall and Douyin; (iii) the increase in segment office expenses of approximately HK$0.7 million, primarily as a result of the new offices rented in Hangzhou and Shenzhen in 6M2021; and (iv) an increase in segment building management fee and rental expenses of approximately HK$0.3 million. The aforesaid reasons also contributed to the decrease in segment margin of our e-commerce and other business (calculated by dividing segment results by segment revenue) from approximately 11.2% for 6M2020 to approximately 0.5% for 6M2021, and also in part explained the difference between the segment margin of approximately 8.8% for FY2020 and that of approximately 0.5% for 6M2021.

Other income

Our other income increased by approximately HK$1.0 million or approximately 27.5% from approximately HK$3.6 million for 6M2020 to approximately HK$4.6 million for 6M2021. Such increase was primarily attributable to (i) an increase in sample sales (inclusive of the sales of hologram stickers) by approximately HK$1.7 million which was generally in line with growth of our merchandise licensing services in 6M2021 as compared to 6M2020; and (ii) an increase in management fee income by approximately HK$0.5 million, and partly offset by a decrease in government subsidies by approximately HK$0.9 million reflecting the one-off nature of the COVID-19 relief subsidies enjoyed by our Group in 6M2020.

Other (losses)/gains, net

Our net other losses amounted to approximately HK$0.7 million for 6M2020, whereas we recognised net other gains of approximately HK$0.4 million for 6M2021. Such turnaround was primarily attributable to the increase in exchange rate for RMB to HKD in general in 6M2021 compared to 6M2020, which led to a change from a net foreign exchange loss position of approximately HK$0.7 million for 6M2020 to a net foreign exchange gain position of approximately HK$0.3 million for 6M2021.

Costs of inventories sold

Our costs of inventories sold increased by approximately HK$2.5 million or approximately 9.8% from approximately HK$25.2 million for 6M2020 to approximately HK$27.7 million for 6M2021, which was primarily attributable to the fact we had write back of impairment of inventories of approximately HK$1.2 million for 6M2020 reflecting our sales of merchandises for which provision for impairment had been made in the preceding financial years. On the other hand, provision for impairment of inventories of approximately HK$0.8 million had been made for 6M2021, which was in part due to our increased inventory procurement in 6M2021 with a view to stock up for various e-commerce campaigns in the second half of the year.

Employee benefit expenses

Our employee benefit expenses increased by approximately HK$10.0 million or approximately 50.1% from approximately HK$19.9 million for 6M2020 to approximately HK$29.9 million for 6M2021. Such increase was primarily attributable to the salary increment effected by our Group in 6M2021, together with a slight increase in average headcount from approximately 196 employees for 6M2020 to approximately 204 employees for 6M2021.

Promotion costs

Our promotion costs increased by HK$1.3 million or approximately 18.5% from approximately HK$6.9 million for 6M2020 to approximately HK$8.1 million for 6M2021, primarily due to our increased advertising and promotional activities, including online advertisement and promotion of our stores on HKTVmall and Douyin, which we only commenced sales during the second half of 2020 and 6M2021, respectively.

Online platform usage fee

Our online platform usage fee remained stable at approximately HK$6.7 million and HK$6.7 million for 6M2020 and 6M2021, respectively.

Depreciation and amortisation

Our depreciation and amortisation remained stable for 6M2020 and 6M2021, which amounted to approximately HK$5.0 million and HK$4.7 million, respectively.

(Impairment losses)/reversal of impairment losses on financial and contract assets

For 6M2020, our impairment losses on financial and contract assets were approximately HK$1.6 million, whereas we recognised reversal of impairment losses on financial and contract assets of approximately HK$1.9 million for 6M2021, primarily attributable to the settlement of trade receivables for which loss allowance had been made in the preceding financial years during 6M2021.

Other expenses

Our other expenses increased by HK$6.8 million or approximately 61.3% from approximately HK$11.2 million for 6M2020 to approximately HK$18.0 million for 6M2021, which was mainly due to (i) an increase in legal, audit and professional fees of approximately HK$3.8 million in connection with our Group's legal proceedings; and (ii) an increase in office expenses of approximately HK$1.0 million, primarily attributable to our new offices rented in Hangzhou and Shenzhen, which had commenced operations as at the Latest Practicable Date.

Income tax expense

Our income tax expenses increased by HK$5.2 million or approximately 134.4% from approximately HK$3.9 million for 6M2020 to approximately HK$9.1 million for 6M2021, mainly due to an increase in profit before income tax.

Profit for the period attributable to owners of our Company

As a result of the foregoing, profit attributable to owners of our Company increased by HK$3.2 million or approximately 22.7% from approximately HK$14.2 million for 6M2020 to approximately HK$17.5 million for 6M2021. Our net profit margin decreased from approximately 15.3% for 6M2020 to approximately 14.1% for 6M2021. Our adjusted net profit under non-HKFRS financial measures increased from approximately HK$14.2 million for 6M2020 to approximately HK$25.6 million for 6M2021.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow

Our Group's primary uses of cash are mainly to finance our operations and satisfy our capital expenditure needs. During the Track Record Period, our Group's principal sources of liquidity and capital resources were net cash from business operations and bank borrowings. After the Global Offering, our Company intends to continue to finance our Group's operations and future plans as detailed in "Business — Our Strategies" in this Prospectus primarily through cash generated from our internally generated funds and the proceeds from the Global Offering.

The following table sets out selected cash flow data from the consolidated statements of cash flows. This information should be read together with the consolidated financial information contained in the Accountant's Report in Appendix I to this Prospectus.

	FY2018	**FY2019**	**FY2020**	**6M2020**	**6M2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating profit before changes in working capital	29,221	47,929	85,284	24,724	30,953
Changes in working capital	(3,122)	(17,070)	(19,239)	(8,981)	(4,158)
Income tax paid	(8,540)	(10,030)	(13,617)	(6,068)	(11,886)
Net cash generated from operating activities	17,559	20,829	52,428	9,675	14,910
Net cash generated from/(used in) investing activities	1,901	(25,206)	(17,626)	(12,362)	(5,355)
Net cash (used in) financing activities	(19,028)	(5,258)	(1,034)	12,153	(35,367)
Net increase/(decrease) in cash and cash equivalents	432	(9,635)	33,768	9,466	(25,812)
Cash and cash equivalents at beginning of the year/period	32,949	34,838	25,770	25,770	60,836
Effect of foreign exchange rate changes on cash and cash equivalents	1,457	567	1,298	2	256
Cash and cash equivalents at end of the year/period	34,838	25,770	60,836	35,238	35,280

Operating activities

Net cash generated from operating activities reflects the profit or loss for the year adjusted for non-cash items such as depreciation and amortisation and adjusted for change in working capital. For the Track Record Period, our operating cash inflows were primarily derived from receipt from customers and our operating cash outflows mainly include payment for inventory costs, employee benefits expenses, promotion costs and other expenses as well as other working capital needs and tax payments.

For 6M2021, our net cash generated from operating activities of approximately HK$14.9 million was a combined result of operating profit before working capital changes of approximately HK$31.0 million, movements in working capital of a cash outflow of approximately HK$4.2 million and income tax paid of approximately HK$11.9 million. Movements in working capital primarily reflected the (i) increase in inventories of approximately HK$13.1 million; and (ii) decrease in contract liabilities of approximately HK$2.3 million, and partially offset by the (i) decrease in trade receivables of approximately HK$5.8 million; and (ii) decrease in contract assets of approximately HK$5.5 million.

For FY2020, our net cash generated from operating activities of approximately HK$52.4 million was a combined result of operating profit before working capital changes of approximately HK$85.3 million, movements in working capital of a cash outflow of approximately HK$19.2 million and income tax paid of approximately HK$13.6 million. Movements in working capital primarily reflected the (i) increase in trade receivables of approximately HK$20.1 million; (ii) decrease in trade payables of approximately HK$6.6 million; and (iii) increase in contract assets by approximately HK$6.0 million, and partially offset by the (i) increase in contract liabilities of approximately HK$8.7 million; and (ii) decrease in inventories of approximately HK$3.8 million.

For FY2019, our net cash generated from operating activities of approximately HK$20.8 million was a combined result of operating profit before working capital changes of approximately HK$47.9 million, movements in working capital of a cash outflow of approximately HK$17.1 million and income tax paid of approximately HK$10.0 million. Movements in working capital primarily reflected the (i) increase in trade receivables of approximately HK$17.1 million; and (ii) decrease in trade payables of approximately HK$5.2 million, and partially offset by the (i) decrease in contract assets of approximately HK$3.2 million; and (ii) increase in contract liabilities of approximately HK$1.4 million.

For FY2018, our net cash generated from operating activities of approximately HK$17.6 million was a combined result of operating profit before working capital changes of approximately HK$29.2 million, movements in working capital of a cash outflow of approximately HK$3.1 million and income tax paid of approximately HK$8.5 million. Movements in working capital primarily reflected the (i) increase in contract assets of approximately HK$8.9 million; and (ii) decrease in trade payables of approximately HK$8.8 million, and partially offset by the decrease in inventories of approximately HK$14.9 million.

Investing activities

For 6M2021, our net cash used in investing activities of approximately HK$5.4 million primarily reflected (i) our advance to a related party of approximately HK$4.4 million; and (ii) additions to property, plant and equipment of approximately HK$0.8 million.

For FY2020, our net cash used in investing activities of approximately HK$17.6 million was primarily attributable to our advance to a related party of approximately HK$15.5 million.

For FY2019, our net cash used in investing activities of approximately HK$25.2 million primarily reflected (i) our advance to a related party of approximately HK$20.5 million; (ii) additions to property, plant and equipment of approximately HK$3.1 million; and (iii) purchase of intangible asset of approximately HK$1.6 million.

For FY2018, our net cash generated from investing activities of approximately HK$1.9 million primarily reflected repayment from related parties of approximately HK$7.0 million, and partially offset by additions to property, plant and equipment of approximately HK$4.7 million.

Financing activities

For 6M2021, our net cash used in financing activities of approximately HK$35.4 million primarily reflected (i) our payment of dividends of approximately HK$27.5 million in total to Semk Cayman and ENS International for their settlement of considerations payable for their respective repurchase of shares from OJ VC pursuant to the Reorganisation; and (ii) repayments of borrowing of approximately HK$19.0 million, and partially offset by proceeds from borrowing of approximately HK$15.8 million.

For FY2020, our net cash used in financing activities of approximately HK$1.0 million primarily reflected (i) repayments of borrowing of approximately HK$26.1 million; (ii) repayments of lease liabilities of approximately HK$6.7 million; (iii) dividend paid to shareholders of approximately HK$4.3 million; and (iv) interest paid on borrowing of approximately HK$1.8 million, and partially offset by proceeds from borrowing of approximately HK$38.3 million.

For FY2019, our net cash used in financing activities of approximately HK$5.3 million primarily reflected (i) repayment to related parties of approximately HK$10.3 million; (ii) repayments of borrowing of approximately HK$8.9 million; (iii) repayments of lease liabilities of approximately HK$5.9 million; and (iv) dividend paid to shareholders of approximately HK$4.8 million, and partially offset by proceeds from borrowing of approximately HK$26.4 million.

For FY2018, our net cash used in financing activities of approximately HK$19.0 million primarily reflected (i) dividends paid to shareholders of approximately HK$10.0 million; (ii) repayments of lease liabilities of approximately HK$4.2 million; and (iii) repayments of borrowing of approximately HK$4.0 million.

Net current assets

The table below sets forth a summary of our consolidated statements of financial position as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2018	2019	2020	2021	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*
Current assets					
Inventories	21,768	22,840	21,448	33,755	50,419
Trade receivables	5,904	20,191	38,275	33,606	52,717
Contract assets	19,040	15,741	21,295	16,491	8,632
Deposits, prepayments and other receivables	8,314	7,515	8,732	10,497	22,144
Amounts due from related parties	510	10,790	15,618	19,975	–
Cash and cash equivalents	39,090	35,341	64,772	38,293	60,647
	94,626	112,418	170,140	152,617	194,559
Current liabilities					
Contract liabilities	8,211	9,486	18,177	15,910	11,343
Trade payables	15,715	10,413	3,824	4,990	4,565
Amounts due to a related party	10,336	–	–	–	373
Accruals and other payables	14,368	15,829	17,034	16,503	25,202
Current income tax liabilities	3,824	5,129	9,828	7,391	6,654
Borrowings	17,355	40,191	46,803	42,630	39,984
Lease liabilities	4,294	6,567	4,572	3,545	3,382
	74,103	87,615	100,238	90,969	91,503
Net current assets	20,523	24,803	69,902	61,648	103,056

Net current assets decreased by approximately HK$8.3 million or approximately 11.8% from approximately HK$69.9 million as at 31 December 2020 to approximately HK$61.6 million as at 30 June 2021. The decrease was primarily due to (i) a decrease in cash and cash equivalents of approximately HK$26.5 million, mainly attributable to our payment of dividends of approximately HK$27.5 million in total to Semk Cayman and ENS International for their settlement of considerations payable for their respective repurchase of shares from OJ VC pursuant to the Reorganisation; and (ii) a decrease in contract assets of approximately HK$4.8 million, and partially offset by (i) an increase in inventories of approximately HK$12.3 million, primarily due to our increased inventory procurement in 6M2021 with a view to stock up for various e-commerce campaigns in the second half of the year; and (ii) increase in amounts due from related parties of approximately HK$4.4 million, which was interest-free, unsecured, repayable on demand, and had been settled as at 31 October 2021.

Net current assets increased by approximately HK$45.1 million or approximately 181.8% from approximately HK$24.8 million as at 31 December 2019 to approximately HK$69.9 million as at 31 December 2020. The increase was primarily due to (i) an increase in cash and cash equivalents of approximately HK$29.4 million, mainly attributable to our increased revenue for FY2020 comparing to FY2019; (ii) increase in trade receivables of approximately HK$18.1 million, mainly attributable to an increase in excess royalties generated from our character licensing business in FY2020; and (iii) increase in contract assets of approximately HK$5.6 million, and partly offset by (i) an increase in contract liabilities of approximately HK$8.7 million; and (ii) an increase in borrowings of approximately HK$6.6 million, mainly attributable to our refinancing activities in FY2020.

Net current assets increased by approximately HK$4.3 million or approximately 20.9% from approximately HK$20.5 million as at 31 December 2018 to approximately HK$24.8 million as at 31 December 2019. The increase was primarily due to (i) an increase in amounts due from related parties of approximately HK$10.3 million in FY2019. Such amounts were unsecured, interest-free and repayable on demand, and had been settled as at 31 October 2021; (ii) an increase in trade receivables of approximately HK$14.3 million, mainly attributable to an increase in excess royalties generated from our character licensing business in FY2019; and (iii) our settlement of amounts due to a related party by approximately HK$10.3 million in FY2019, which was interest-free and unsecured, and partially offset by an increase in borrowings of approximately HK$22.8 million in FY2019 to support the development of our e-commerce and other business.

Working capital

Our Directors confirm, and the Sole Sponsor concurs, that taking into consideration the financial resources presently available to us, including anticipated cash flow from our operating activities, existing cash and cash equivalents, available banking facilities and the estimated net proceeds from the Global Offering, we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this Prospectus.

Save as disclosed in "Summary — Recent Developments and Material Adverse Changes — Business Updates" in this Prospectus, our Directors are not aware of any other factors that would have a material impact on our Group's liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans as set out in "Future Plans and Use of Proceeds" in this Prospectus.

DESCRIPTION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Inventories

Our inventories mainly consist of the merchandises we procured from our suppliers and sold in our e-commerce and other business.

The following table sets forth our inventories as at the dates indicated:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Finished goods – Gross	28,390	28,734	25,203	38,348
Less: provision of obsolete inventory	(6,622)	(5,894)	(3,755)	(4,593)
Finished goods – Net	21,768	22,840	21,448	33,755

Our inventories slightly increased from approximately HK$21.8 million as at 31 December 2018 to approximately HK$22.8 million as at 31 December 2019 primarily due to a decrease in provision of obsolete inventory for FY2019. Our inventories decreased to approximately HK$21.4 million as at 31 December 2020 as we had adopted a more reserved merchandise policy in FY2020, with a view to minimise the risk of obsolete stock in contemplation of a decrease in market demand due to the outbreak of COVID-19. Our inventories increased to approximately HK$33.8 million as at 30 June 2021, mainly due to our increased inventory procurement in 6M2021 with a view to stock up for various e-commerce campaigns in the second half of the year.

The following table sets forth the ageing analysis of our inventories as at the dates indicated:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	11,766	12,851	12,509	27,257
Between one to two years	6,000	6,206	5,494	3,795
Between two to three years	2,387	3,952	3,031	2,438
Over three years	8,237	5,725	4,169	4,858
	28,390	28,734	25,203	38,348

We review the condition and utilisation of our inventories regularly and make provision of impairment of inventories with reference to the ageing of inventories, our sales experience including the respective historical sales value and utilisation of inventories of various ageing categories, and other factors that affect inventory obsolescence. We recognise write-back of impairment of inventories when there are sales of merchandises for which provision for impairment has been made, and where the sales value exceeds the then carrying value of such merchandises. We recorded provision of inventories of approximately HK$6.6 million, HK$5.9 million, HK$3.8 million and HK$4.6 million as at 31 December 2018, 2019 and 2020, and 30 June 2021, respectively. Our Directors consider that no additional impairment of inventories is required, as a substantial portion of our inventory balance as at the end of each reporting period were considered to be actively sold in the market based on our sales experience, whereas provision of impairment had been made for the remaining balance of inventories in accordance with our inventory provision policy as set out above.

The following table sets forth our average inventory turnover days for the periods indicated:

	FY2018	**FY2019**	**FY2020**	**6M2021**
Average inventory turnover days *(Note)*	157	108	147	181

Note: Average inventory turnover days are calculated using the average balances of inventories divided by cost of inventories sold for the relevant year/period and multiplied by 365 days/181 days. Average balance of inventories is calculated as the sum of the beginning and ending balance for the relevant year/period divided by two.

Our average inventory turnover days decreased from approximately 157 days for FY2018 to approximately 108 days for FY2019 mainly due to our increase in sales for FY2019 as discussed earlier, leading to a higher inventory turnover rate in general for FY2019. Our average inventory turnover days increased from approximately 108 days for FY2019 to approximately 147 days for FY2020 mainly due to our decrease in sales for FY2020 as discussed earlier, leading to a lower inventory turnover rate in general for FY2020 despite we already adopted a more reserved merchandise procurement policy. Our average inventory turnover days for 6M2021 increased to approximately 181 days mainly due to our increased inventory procurement in 6M2021 as discussed earlier, leading to a lower inventory turnover rate in general for 6M2021.

As at 31 October 2021, approximately HK$9.0 million or 23.6% of our inventories as at 30 June 2021 had been subsequently sold. In this connection, a substantial portion of our inventories as at 30 June 2021 were procured by us in 6M2021 with a view to stock up for our sales in the second half of 2021, and in particular the fourth quarter of 2021 during which the Double-Eleven and “Double-12 Day” would be held. As such, our Directors do not consider there to be any material difficulty in the utilisation of our inventories as at 30 June 2021 despite the subsequent utilisation rate as at 31 October 2021 was approximately 23.6%.

Trade receivables

Our trade receivables were mainly derived from (i) royalties and service fee income which we have billed to the customers of our character licensing business and (ii) outstanding amounts receivable by us from the customers of our e-commerce and other business. The following table sets forth our trade receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	8,195	24,847	45,765	39,978
Less: loss allowance	(2,291)	(4,656)	(7,490)	(6,372)
	5,904	20,191	38,275	33,606

Our trade receivables increased by approximately HK$14.3 million or approximately 242.0% from approximately HK$5.9 million as at 31 December 2018 to approximately HK$20.2 million as at 31 December 2019. Such increase was primarily due to the increase in excess royalties generated from our character licensing business for FY2019, which remained unsettled as at 31 December 2019 as excess royalties are normally recognised in the fourth quarter of the year. As at 31 December 2020, our trade receivables further increased to approximately HK$38.3 million, primarily attributable to the increase in excess royalties generated from our character licensing business for FY2020. Our trade receivables decreased to approximately HK$33.6 million as at 30 June 2021, mainly due to (i) the fact that our revenue for the first half of the year is generally lower as compared to the second half of the year due to seasonality factors as discussed in "Key factors affecting our results of operations and financial condition — seasonality" in this section; and (ii) the settlement of a relatively large amount of trade receivables by our major customers in 6M2021.

The ageing analysis of trade receivables based on invoice date is as follows:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current–30 days	4,421	15,186	35,875	29,544
31–60 days	84	2,397	1,943	1,291
61–90 days	53	943	534	1,751
91–120 days	6	2,297	935	477
121–180 days	642	1,360	1,405	290
Over 180 days	2,989	2,664	5,073	6,625
	8,195	24,847	45,765	39,978

We normally grant our customers credit terms ranging from 0 to 30 days.

In determining the recoverability of our trade receivables, we consider the expected credit loss by using a provision matrix grouped by common risk characteristic, and trade receivables with known insolvencies or significant outstanding will be assessed individually. The expected loss rates are determined based on the payment profiles of sales over a period of 36 months and the corresponding historical credit losses experienced within this period, which will be adjusted to reflect the current and forward-looking information on macroeconomic factors. In general, the longer the account receivables remain outstanding, the higher the expected loss rates would be. We would also make reference to the royalty reports of our licensee customers, which are obtained on a regular basis, to assess the performance and credit risk of our licensee customers, and monitor the payment of royalty thereafter. Under this framework, credit loss allowances are made on all our trade receivables based on expected credit loss, including trade receivables that are within the credit terms granted to our customers. We recorded credit loss allowance on trade receivables of approximately HK$2.3 million, HK$4.7 million, HK$7.5 million and HK$6.4 million as at 31 December 2018, 2019 and 2020, and 30 June 2021, respectively. In light of the above, our Directors consider that sufficient credit loss allowances have been made and no additional credit loss allowances were required.

The table below sets forth a summary of average trade receivables turnover days for the periods indicated:

	FY2018	**FY2019**	**FY2020**	**6M2021**
Average trade receivables turnover days *(Note)*	12	20	46	53

Note: Average trade receivables turnover days is calculated using the average balances of trade receivables divided by revenue for the relevant year/period and multiplied by 365 days/181 days. Average balance of trade receivables is calculated as the sum of the beginning and the ending balance for the relevant year/period divided by two.

The average trade receivable turnover days increased from approximately 12 days for FY2018 to approximately 20 days for FY2019, which was mainly attributable to (i) the increase in excess royalties generated from our character licensing business for FY2019, leading to the increase in our trade receivables balance as at 31 December 2019 as discussed; and (ii) the increase in the proportion of our revenue attributable to character licensing business from approximately 31.8% for FY2018 to approximately 33.6% for FY2019. For FY2020, the average trade receivables turnover days increased to approximately 46 days, which was likewise mainly attributable to (i) the increase in excess royalties generated from our character licensing business for FY2020, leading to the further increase in our trade receivables balance as at 31 December 2020 as discussed; and (ii) the further increase in the proportion of our revenue attributable to character licensing business to approximately 42.0% for FY2020. Our average trade receivable turnover days for 6M2021 further increased to approximately 53 days, mainly due to (i) the relatively large amount of trade receivables balance as at 31 December 2020, primarily attributable to the increase in excess royalties generated from our character licensing business for FY2020; (ii) the increased proportion of revenue attributable to character licensing business of approximately 47.6% for 6M2021; and (iii) the fact that our revenue for the first half of the year is generally lower as compared to the second half of the year due to seasonality factors as discussed earlier, notwithstanding there was a decrease in our trade receivables balance as at 30 June 2021 as compared to 31 December 2020.

The table below sets forth a summary of average trade receivables and contract assets turnover days for the periods indicated:

	FY2018	FY2019	FY2020	6M2021
Average trade receivables and contract assets turnover days *(Note)*	38	46	75	80

Note: Average trade receivables and contract assets turnover days is calculated using the sum of the average balances of trade receivables and average balances of contract assets, divided by revenue for the relevant year/period and multiplied by 365 days/181 days. Average balance of trade receivables is calculated as the sum of the beginning and ending balance for the relevant year/period divided by two, whereas average balance of contract assets is calculated as the sum of the beginning and ending balance for the relevant year/period divided by two.

The increase in the average trade receivables and contract assets turnover days from FY2018 to FY2020 was primarily attributable to our increase in both the amount and proportion of revenue generated from character licensing business, together with an increasing amount and proportion of excess royalties charged from our licensees, such that we recorded an increase in the aggregate balance of our trade receivables and contract assets during the same periods, while at the same time the proportion of contract assets had been decreasing as excess royalties are usually billed to our licensees shortly after we recognise revenue at the time of confirmation of the royalty report from our customer. As compared to FY2020, the average trade receivables and contract assets turnover days for 6M2021 further increased to approximately 80 days, which was primarily attributable to (i) the relatively large aggregate balance of our trade receivables and contract assets as at 31 December 2020, primarily attributable to the increase in excess royalties generated from our character licensing business for FY2020; (ii) the increase in the proportion of our revenue attributable to character licensing business from approximately 42.0% for FY2020 to approximately 47.6% for 6M2021; and (iii) the fact that our revenue for the first half of the year is generally lower as compared to the second half of the year due to seasonality factors as discussed earlier, notwithstanding (i) the aggregate balance of our trade receivables and contract assets as at 30 June 2021 was lower as compared to 31 December 2020, in part due to the settlement of a relatively large amount of trade receivables by our major customers in 6M2021; and (ii) our billing rate outpaced our revenue recognised under the character licensing business during 6M2021.

As at 31 October 2021, approximately 50.6% or HK$20.2 million of our trade receivables as at 30 June 2021 had been settled.

Trade payables

Our trade payables were primarily payables relating to payment to our suppliers for our procurement of merchandise for sale. The following table sets forth the breakdown of our trade payables by nature of creditor as at the dates indicated:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Payable to third parties	286	2,209	1,498	1,293
Payable to a related party	15,429	8,204	2,326	3,697
	15,715	10,413	3,824	4,990

Our trade payables decreased by approximately HK$5.3 million or approximately 33.7% from approximately HK$15.7 million as at 31 December 2018 to approximately HK$10.4 million as at 31 December 2019. Such decrease was primarily attributable to the decrease in the percentage of our procurement from a related party from approximately 93.4% of our total purchases for FY2018 to approximately 66.5% of our total purchases for FY2019. As at 31 December 2020, our trade payables further decreased to approximately HK$3.8 million, which was primarily attributable to (i) our adoption of a more reserved merchandise procurement policy (in terms of both volume and type of merchandise) in FY2020 in light of the outbreak of COVID-19; and (ii) a further decrease in procurement from the related party supplier in FY2020. As at 30 June 2021, our trade payables increased to approximately HK$5.0 million, which was primarily attributable to our increased inventory procurement in 6M2021 with a view to stock up for various e-commerce campaigns in the second half of the year.

The ageing analysis of trade payables based on invoice date is as follows:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Up to 30 days	9,249	2,259	1,343	4,136
31 to 60 days	2,520	486	732	311
61 to 90 days	412	379	481	52
Over 90 days	3,534	7,289	1,268	491
	15,715	10,413	3,824	4,990

The credit period granted by suppliers usually ranges around 30 days.

The table below sets forth a summary of average trade payables turnover days for the periods indicated:

	FY2018	FY2019	FY2020	6M2021
Average trade payables turnover days (Note)	107	63	47	29

Note: Average trade payables turnover days is calculated using the average balances of trade payables divided by cost of inventories sold for the relevant year/period and multiplied by 365 days/181 days. Average balance of trade payables is calculated as the sum of the beginning and the ending balance for the relevant year/period divided by two.

The average trade payables turnover days decreased from approximately 107 days for FY2018 to approximately 63 days for FY2019, which was primarily attributable to the decrease in percentage of our procurement from a related party from approximately 93.4% of our total purchases for FY2018 to approximately 66.5% of our total purchases for FY2019, as we usually enjoy a longer credit period from the related party supplier comparing with suppliers who are Independent Third Parties. For FY2020, the average trade payables turnover days further decreased to approximately 47 days, primarily attributable to a further decrease in the percentage of our procurement from the related party to approximately 49.3% of our total purchases for FY2020. Notwithstanding our trade payables balance as at 30 June 2021 was higher as compared to 31 December 2020 for reasons discussed earlier, our average trade payables turnover days for 6M2021 were lower as compared to FY2020 as there was a relatively large amount of trade payables opening balance for FY2020, which led to a higher average trade payables balance for FY2020 as compared to 6M2021.

As at 31 October 2021, approximately 94.8% or HK$4.7 million of our trade payables as at 30 June 2021 had been settled.

Contract assets and liabilities

The table below sets forth our contract assets and liabilities as at the dates indicated:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contract assets	19,599	16,061	22,410	16,871
Less: loss allowance of contract assets	(559)	(320)	(1,115)	(380)
	19,040	15,741	21,295	16,491
Contract liabilities	8,211	9,486	18,177	15,910

Our contract assets primarily represent the unbilled amount resulting from our character licensing business when revenue recognised exceeds the amounts billed to our customers. Our contract assets amounted to approximately HK$19.0 million, HK$15.7 million, HK$21.3 million and HK$16.5 million as at 31 December 2018, 2019 and 2020, and 30 June 2021, respectively.

The following table sets forth the ageing analysis of our contract assets by date of revenue recognition:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 30 days	11,098	10,521	16,995	7,964
31 – 60 days	1,083	1,671	1,323	4,478
61 – 90 days	816	679	704	1,417
91 – 120 days	783	347	403	788
121 – 180 days	1,481	596	669	659
Over 180 days	4,338	2,247	2,316	1,565
	19,599	16,061	22,410	16,871

Our contract assets primarily represent the revenue from license fee recognised but not yet billed to our licensee customers. We transfer contract assets to trade receivables when we bill our licensee customers. Our licensee customers are typically billed at an interval of six to 12 months over the contract term for the minimum guarantee payable, and a substantial portion of our contract assets were with an age of six months or less at the end of each reporting period. Meanwhile excess royalties are usually billed to our customers shortly after the confirmation of the royalty reports from them, which are usually obtained at an interval of three months. We consider the expected credit loss and make provision of our contract assets in the same manner as our trade receivables, that is, by using a provision matrix grouped by common risk characteristic, and contract assets from customers with known insolvencies or significant outstanding will be assessed individually. Accordingly, we recorded loss allowance of contract assets of approximately HK$0.6 million, HK$0.3 million, HK$1.1 million and HK$0.4 million as at 31 December 2018, 2019 and 2020, and 30 June 2021, respectively. In addition, we have control measures to ensure our contract assets accrued are within the contract terms and invoices are issued timely in accordance with the billing schedules agreed with our licensee customers. In light of the above, our Directors consider that sufficient credit loss allowances have been made and no additional credit loss allowances were required, and there has been no recoverability issue for our contract assets.

The following table sets forth a summary of average contract assets turnover days for the period indicated:

	FY2018	FY2019	FY2020	6M2021
Average contract assets turnover days *(Note)*	84	78	69	58

Note: Average contract assets turnover days is calculated using the average balances of contract assets divided by revenue generated from our character licensing business for the relevant year/period and multiplied by 365 days/181 days. Average balance of contract assets is calculated as the sum of the beginning and ending balance for the relevant year/period divided by two.

The decrease in our average contract assets turnover days from FY2018 to FY2020 was mainly due to our increase in revenue generated from character licensing business for reasons as discussed earlier, together with the increasing proportion of excess royalties charged from our licensees, which are usually billed to our licensees shortly after we recognise such revenue at the time of confirmation of the royalty report from our customer. Our average contract assets turnover days further decreased to approximately 58 days for 6M2021, which was primarily attributable to the fact that our billing rate outpaced our revenue recognised under the character licensing business during 6M2021, notwithstanding the fact that our revenue for the first half of the year is generally lower as compared to the second half of the year due to seasonality factors as discussed earlier.

Our contract liabilities mainly arose from the advance payment mainly relating to minimum guarantee made by our customers while the underlying services have yet to be provided. Our contract liabilities amounted to approximately HK$8.2 million, HK$9.5 million, HK$18.2 million and HK$15.9 million as at 31 December 2018, 2019 and 2020, and 30 June 2021, respectively.

As at 31 October 2021, approximately HK$10.6 million, representing approximately 62.7% of the contract assets as at 30 June 2021, had been subsequently billed to our customers.

As at 31 October 2021, approximately HK$7.3 million, representing approximately 45.8% of the contract liability as at 30 June 2021, had been subsequently recognised as revenue.

Our Directors confirmed that there were no reversal of our contract assets and contract liabilities or any dispute with the relevant customers on the amounts of contract assets and contract liabilities for the Track Record Period.

Deposits, prepayments and other receivables

We had total deposits, prepayments and other receivables of approximately HK$11.7 million, HK$13.1 million, HK$11.3 million and HK$14.7 million as at 31 December 2018, 2019 and 2020, and 30 June 2021, respectively. The following table sets out a breakdown of our deposits, prepayments and other receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
VAT recoverable	3,133	2,428	1,879	2,061
Deposits	2,309	3,466	3,378	3,518
Other asset – investment in life insurance contract	1,385	1,443	1,217	1,237
Contract costs	1,576	1,208	746	1,063
Others	3,289	4,526	4,071	6,857
	11,692	13,071	11,291	14,736
Less: non-current portion				
Contract costs	(738)	(336)	(264)	(277)
Deposits	(332)	(1,505)	–	–
Prepayment for trademarks	(539)	(2,011)	(935)	(1,928)
Other asset – investment in life insurance contract	(1,385)	(1,443)	(1,217)	(1,237)
Prepayment for property, plant and equipment	–	–	–	(847)
Other receivables	(384)	(261)	(143)	–
	(3,378)	(5,556)	(2,559)	(4,239)
Current portion	8,314	7,515	8,732	10,497

Deposits primarily represent our deposits paid to e-commerce platforms in the course of our e-commerce and other business, as well as charged bank deposits for securing our bank borrowings. Investment in life insurance represents the life insurance policy held by us to insure Mr. Hui, our founder, chairman, chief executive officer and executive Director, and we have the right to surrender the said insurance partially or in fully at any time after the first policy anniversary for cash value. Contract costs represent our costs directly attributable to the obtaining of contracts and are amortised and recognised as other expenses under our consolidated statements of comprehensive income. Others represents, among others, prepaid listing expenses and costs incurred for applications for trademark registration which are still pending as at the dates indicated, and will be amortised over the trademark estimated useful life upon registration.

Amounts due from related parties/due to a related party

Our amounts due from related parties amounted to approximately HK$0.5 million, HK$10.8 million, HK$15.6 million and HK$20.0 million as at 31 December 2018, 2019 and 2020, and 30 June 2021, respectively. Such amounts were non-trade in nature, and were unsecured, interest-free, repayable on demand and had been settled as at 31 October 2021.

Our amount due to a related party amounted to approximately HK$10.3 million, nil, nil and nil as at 31 December 2018, 2019 and 2020, and 30 June 2021, respectively. Such amounts were non-trade in nature, and were unsecured, interest-free, repayable on demand, and any outstanding balance will be settled prior to Listing.

Accruals and other payables

Accruals and other payables mainly include accrued expenses, customer deposits, value-added tax and other tax payable and other payables.

Our accruals and other payables increased by approximately HK$1.5 million from approximately HK$14.4 million as at 31 December 2018 to approximately HK$15.8 million as at 31 December 2019. Such increase was mainly due to an increase in (i) accrued expenses of approximately HK$1.9 million; and (ii) value added tax and other tax payable by approximately HK$1.7 million as a result of our increase in revenue for FY2019, and partly offset by a decrease in other payables by approximately HK$1.7 million. As at 31 December 2020, our accruals and other payables further increased by approximately HK$1.2 million to approximately HK$17.0 million. Such increase was mainly due to an increase in accrued listing expenses of approximately HK$1.8 million and partially offset by a decrease in accrued expenses of approximately HK$1.6 million. Our accruals and other payables then remained stable at approximately HK$16.5 million as at 30 June 2021.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital expenditures

During the Track Record Period, our Group incurred capital expenditures of approximately HK$4.8 million, HK$3.3 million, HK$3.2 million and HK$1.0 million, respectively, mainly for acquiring additional property, plant and equipment and intangible assets.

Our projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. See "Future Plans and Use of Proceeds" in this Prospectus for further information.

We expect to fund our capital expenditures principally through the net proceeds we receive from the Global Offering, existing cash and cash equivalents, available banking facilities (if any), and cash generated from our operating activities. We believe that these source of funding will be sufficient to finance our capital expenditure needs for the next 12 months.

Capital commitments

As at 31 December 2018, 2019 and 2020, and 30 June 2021, our Group had no capital commitments which were not provided for in our consolidated financial statements.

INDEBTEDNESS AND CONTINGENT LIABILITIES

Indebtedness

The following table sets forth a breakdown of our total indebtedness as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2018	**2019**	**2020**	**2021**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*
Non-current portion					
Lease liabilities	6,687	4,976	–	1,790	8,810
	6,687	4,976	–	1,790	8,810
Current portion					
Borrowings	17,355	40,191	46,803	42,630	39,984
Lease liabilities	4,294	6,567	4,572	3,545	3,382
Amounts due to a related party *(Note 1)*	10,336	–	–	–	373 *(Note 2)*
	31,985	46,758	51,375	46,175	43,739
Total	38,672	51,734	51,375	47,965	52,549

Notes:

1. The balance was unsecured, interest-free and repayable on demand.

2. Such balance represented the remaining balance of the dividends declared by us on 13 September 2021 and payable to Semk Holdings after offsetting the amounts due from Semk Holdings of approximately HK$20.0 million, which had been settled as at the Latest Practicable Date.

Borrowings

The following table sets forth a breakdown of our borrowings as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2018	**2019**	**2020**	**2021**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*
Current portion					
Bank borrowings	13,103	30,620	42,867	39,617	37,177
Bank overdrafts	4,252	9,571	3,936	3,013	2,807
Total	17,355	40,191	46,803	42,630	39,984

Our bank borrowings and bank overdrafts during the Track Record Period were denominated in HK$ and USD. The balances increased from approximately HK$17.4 million as at 31 December 2018 to approximately HK$40.2 million as at 31 December 2019 primarily attributable to our increased external financing for the purpose of supporting the development of our e-commerce and other business in FY2019. As at 31 December 2020, the balances further increased to approximately HK$46.8 million as a result of our refinancing activities in FY2020. Our borrowings decreased to approximately HK$42.6 million as at 30 June 2021 as a result of our repayment of borrowings in 6M2021.

As at 31 December 2018, 2019 and 2020, and 30 June 2021, banking facilities of approximately HK$28.3 million, HK$77.1 million, HK$65.0 million and HK$60.9 million, respectively, were granted by banks to subsidiaries of our Group. The facilities were secured by (i) personal guarantees by Mr. Hui, our Controlling Shareholder, and his spouse; (ii) corporate guarantees by certain related companies and certain subsidiaries of our Group; and (iii) certain buildings held by related companies of our Group and Mr. Hui separately. Our Directors confirm that the aforesaid guarantees and securities will be released or replaced by our Company's corporate guarantee before or upon Listing.

As at 31 December 2018, 2019 and 2020, and 30 June 2021, approximately HK$18.0 million, HK$47.6 million, HK$53.0 million and HK$47.9 million of our banking facilities, respectively, had been utilised, whereas our undrawn banking facilities amounted to approximately HK$10.2 million, HK$19.2 million, HK$10.1 million and HK$13.0 million, respectively.

Lease liabilities

Lease liabilities mainly represent present value of our lease payments primarily for our warehouses, office premises and motor vehicles. Our lease liabilities increased by approximately HK$0.6 million or approximately 5.1% from approximately HK$11.0 million as at 31 December 2018 to approximately HK$11.5 million as at 31 December 2019. Such increase was primarily attributable to our additional office spaces rented in FY2019. As at 31 December 2020, our lease liabilities were amortised and decreased to approximately HK$4.6 million. Our lease liabilities then increased to approximately HK$5.3 million as at 30 June 2021, primarily attributable to our new office rented in Hangzhou, which had commenced operations as at the Latest Practicable Date.

Contingent liabilities

During the Track Record Period, one of the IP character licensed by our Group was alleged to have infringed certain trademarks and IP characters of a third party character IP brand in the PRC, and as a result certain legal proceedings involving our Group and/or our licensees ensued (the "**Adverse Proceedings**"). Please refer to "Business — Legal Proceedings and Compliance — Disputes and legal proceedings relating to a third party character IP brand" in this Prospectus for further details. As at the Latest Practicable Date we had contingent liabilities of approximately HK$4.5 million in relation to the Adverse Proceedings. Our Directors consider that the likelihood of materialisation of such contingent liabilities to be minimal. For details, please refer to note 31 to the Accountant's Report set out in Appendix I to this Prospectus. Save as disclosed in this section, as at 31 December 2018, 2019 and 2020, and 30 June 2021, we did not have any material contingent liabilities.

As at 31 October 2021, being the latest practicable date for the purpose of the indebtedness statement, save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, our Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities. Our Directors confirmed that there has not been any material change in our indebtedness or contingent liabilities since 31 October 2021 and up to the date of this Prospectus.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENT

During the Track Record Period and as at the Latest Practicable Date, we had not entered into any material off-balance sheet commitments and arrangements.

RELATED PARTIES TRANSACTIONS

With respect to the related party transactions set forth in note 29 to the Accountant's Report in Appendix I to this Prospectus, the related party transactions occurred during the Track Record Period mainly comprised (i) our procurement of goods from a related party for our e-commerce and other business; (ii) provision of management services to a related party; (iii) office co-sharing expenses charged by a related party; and (iv) rental expenses charged by related parties. Our Directors confirm that these related party transactions were conducted on normal or better commercial terms and were fair and reasonable and in the interests of our Shareholders as a whole.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for each of the years/period ended/as at 31 December 2018, 2019 and 2020 and 30 June 2021:

	FY2018	FY2019	FY2020	6M2021
Net profit margin (%)[1]	4.9	9.9	23.4	14.1
Return on equity (%)[2]	26.0	51.8	61.9	N/A[11]
Return on total assets (%)[3]	8.3	17.3	28.9	N/A[11]
Interest coverage (times)[4]	17.1	22.2	34.5	34.1

	As at 31 December			As at 30 June
	2018	2019	2020	2021
Current ratio[5] (times)	1.3	1.3	1.7	1.7
Quick ratio[6] (times)	1.0	1.0	1.5	1.3
Gearing ratio (%)[7]	45.7	86.3	53.1	53.6
Net debt to equity ratio (%)[8]	N/A[10]	10.4	N/A[10]	5.5

	FY2018	FY2019	FY2020	6M2021
Non-HKFRS financial measures for illustrative purpose:				
Adjusted net profit margin (%)[9]	7.0	13.5	25.6	20.7

Notes:

(1) Net profit margin for each of the year/period is calculated based on net profit divided by revenue for the respective year/period and multiplied by 100%.

(2) Return on equity equals profit for the year divided by total equity of the relevant year and multiplied by 100%.

(3) Return on total assets equals profit for the year divided by total assets of the relevant year and multiplied by 100%.

(4) Interest coverage equals net profit before finance costs and tax divided by finance costs in the relevant year/period.

(5) Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of the respective year/period.

(6) Quick ratio is calculated as total current assets less inventories divided by the total current liabilities as at the end of the respective year/period.

(7) Gearing ratio is calculated based on the total interest-bearing borrowings divided by total equity as at the respective year/period and multiplied by 100%.

(8) Net debt to equity ratio is calculated based on net debts as at the end of the respective year/period divided by total equity as at the end of the respective year/period and multiplied by 100%. Net debt includes all interest-bearing borrowings (if any), net of cash and cash equivalents.

(9) Adjusted net profit margin under non-HKFRS financial measures for the year is calculated on adjusted net profit under non-HKFRS financial measures for the year/period divided by revenue for the respective year/period and multiplied by 100%.

(10) Our Group was at a net cash position as the amount of cash and cash equivalents exceeded the total interest-bearing borrowings of our Group, such that the net debt to equity rate is not applicable.

(11) The figure for 6M2021 is not meaningful as it is not comparable to the annual figure.

Net profit margin/adjusted net profit margin under non-HKFRS financial measures

Our net profit margin increased from approximately 4.9% for FY2018 to approximately 9.9% for FY2019, and further increased to approximately 23.4% for FY2020. Our net profit margin then decreased to approximately 14.1% for 6M2021. The increase in net profit margin from FY2018 to FY2019 was primarily attributable to (i) the turnaround of the segment results of our e-commerce and other business from a loss position for FY2018 to a positive segment results for FY2019, which was primarily due to (a) the increase in segment revenue by approximately HK$24.4 million or approximately 17.7%, together with (b) an increase in segment gross profit margin from approximately 49.4% in FY2018 to approximately 53.4% in FY2019, attributable to, among others, a decrease in average procurement cost per unit for apparel which in part contributed to the higher gross profit margin of apparel, together with an increase in the sales of apparel in FY2019, as well as the write-back of impairment of inventories recorded for FY2019; and (ii) the growth of the segment results of our character licensing business from FY2018 to FY2019. The increase in net profit margin from FY2019 to FY2020 was primarily attributable to (i) the growth of the segment results of our character licensing business from FY2019 to FY2020 in light of its relatively higher segment profit margin; and (ii) the increase in the segment gross profit margin of our e-commerce and other business from approximately 53.4% for FY2019 to approximately 59.5% for FY2020, attributable to, among others, the fact that our sales during FY2020 focused on apparel which had a higher gross profit margin as compared to other products, as well as the higher write-back of impairment of inventories recorded for FY2020 as compared to FY2019. There was a decrease in net profit margin for 6M2021 as compared to FY2020, as our profit for the first half of a year is normally less than the second half of the same year due to seasonality factors. For further details, see "Key factors affecting our results of operations and financial condition — seasonality" in this section. Our adjusted net profit margin under non-HKFRS financial measures for FY2018, FY2019, FY2020 and 6M2021 was approximately 7.0%, 13.5%, 25.6% and 20.7%, respectively.

Return on equity

Our return on equity increased from approximately 26.0% for FY2018 to approximately 51.8% for FY2019, and further increased to approximately 61.9% for FY2020. The increase in our return on equity from FY2018 to FY2019 was primarily attributable to (i) the increase in net profit for FY2019 mainly as a result of the increase in revenue; and (ii) our declaration of dividends of approximately HK$15.0 million, partly offset by the increase in retained earnings from FY2018. The further increase in our return on equity from FY2019 to FY2020 was primarily attributable to (i) the increase in net profit for FY2020; and (ii) our declaration of dividends of approximately HK$15.0 million during the year, partly offset by the increase in retained earnings from FY2019.

Return on total assets

Our return on total assets increased from approximately 8.3% for FY2018 to approximately 17.3% for FY2019, and further increased to approximately 28.9% for FY2020. The increase in return on total assets from FY2018 to FY2019 was primarily due to the increase in net profit for FY2019 mainly as a result of the increase in revenue, which outweighed the increase in total assets primarily due to the increase in trade receivables as a result of the increase in excess royalties generated, which remained unsettled as at the end of FY2019. Our return on total assets increased from FY2019 to FY2020 mainly because there was an increase in net profit for FY2020 primarily as a result of (i) the increase in revenue attributable to our character licensing business which generally had a higher segment profit margin than that of our e-commerce and other business; and (ii) the increase in segment gross profit margin of our e-commerce and other business from approximately 53.4% for FY2019 to approximately 59.5% for FY2020, attributable to, among others, the fact that our sales during FY2020 focused on apparel which had a higher gross profit margin as compared to other products, as well as the higher write-back of impairment of inventories recorded for FY2020 as compared to FY2019, which outweighed the increase in total assets primarily due to the increase in cash and cash equivalent resulting from an increase in revenue from FY2019 to FY2020.

Interest coverage

Our interest coverage increased from approximately 17.1 for FY2018 to approximately 22.2 for FY2019, and further increased to approximately 34.5 for FY2020. Such increase was primarily attributable to the increase in net profit before finance costs and tax during the said periods, which outweighed the increase in finance costs due to our increased external financing and our refinancing activities during such periods. As compared to FY2020, our interest coverage for 6M2021 remained relatively stable at approximately 34.1.

Current ratio

Our current ratio was approximately 1.3, 1.3, 1.7 and 1.7 as at 31 December 2018, 2019 and 2020, and 30 June 2021, respectively. Our current ratio remained relatively stable at approximately 1.3 and 1.3 as at 31 December 2018 and 2019, respectively, and increased to approximately 1.7 as at 31 December 2020, primarily attributable to (i) an increase in cash and cash equivalents by approximately HK$29.4 million, mainly attributable to our increased revenue for FY2020; (ii) an increase in trade receivables by approximately HK$18.1 million, mainly attributable to an increase in excess royalties generated from our character licensing business in FY2020; and (iii) and increase in amounts due from related parties by approximately HK$4.8 million, and partly offset by (a) an increase in contract liabilities of approximately HK$8.7 million due to advances received from customers; and (b) an increase in borrowings of approximately HK$6.6 million, mainly attributable to our refinancing activities in FY2020. Our current ratio then remained stable at approximately 1.7 as at 30 June 2021.

Quick ratio

Our quick ratio remained relatively stable at approximately 1.0 and 1.0 as at 31 December 2018 and 2019, respectively, and increased to approximately 1.5 as at 31 December 2020. The said increase from 2019 to 2020 has the same reason as the increase in our current ratio from 2019 to 2020 as discussed above. Our quick ratio then slightly decreased to approximately 1.3 as at 30 June 2021, mainly attributable to our increased inventories balance as at 30 June 2021 resulting from our increased inventory procurement in 6M2021.

Gearing ratio

Our gearing ratio increased from approximately 45.7% as at 31 December 2018 to approximately 86.3% as at 31 December 2019. Such increase was primarily attributable to the increase in borrowings of approximately HK$22.8 million for supporting the development of our e-commerce and other business, and partly offset by the increase in total equity by approximately HK$8.6 million as at 31 December 2019 as a result of our increase retained earnings from FY2018 and partially offset by our declaration of dividends during the year. Our gearing ratio however decreased to approximately 53.1% as at 31 December 2020, which was primarily attributable to the increase in total equity by approximately HK$41.6 million as at 31 December 2020 due to our increase in retained earnings from FY2019 and partially offset by our declaration of dividends during the year, and partly offset by the increase in borrowings by approximately HK$6.6 million, mainly attributable to our refinancing activities in FY2020. Our gearing ratio then remained stable at approximately 53.6% as at 30 June 2021.

Net debt to equity ratio

As at 31 December 2018 and 2020, our Group was at a net cash position as the amount of cash and cash equivalents exceeded the total interest bearing borrowings of our Group. As at 31 December 2019 and 30 June 2021, our net debt to equity ratio was 10.4% and 5.5%, respectively.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to financial risks including market risk, credit risk and liquidity risk arises in the normal course of our business. Details of the risks to which we are exposed to are set out in note 3.1 to the Accountant's Report, the text of which is set out in Appendix I to this Prospectus.

DIVIDENDS

In FY2017, Semk International, a business company incorporated in the BVI, declared dividends of approximately HK$20.0 million, of which approximately HK$10.0 million had been paid in FY2017, and the payment of the remaining balance of approximately HK$10.0 million was effected during FY2018. The said declaration of dividends in FY2017 had contributed to our negative balance of retained earnings of approximately HK$2.8 million as at 1 January 2018. As advised by our BVI Legal Advisers, the directors of a BVI company may declare a dividend if they are satisfied, on reasonable grounds, that the company will, immediately after the payment of the dividend, satisfy the solvency test set out in the BVI Business Companies Act. A company satisfies the solvency test if the value of its assets exceeded its liabilities and it is able to pay its debts as they fall due. Our Directors confirmed that, immediately after each payment of dividends in FY2017 and FY2018 as described above, the value of Semk International's assets exceeds its liabilities and it was able to pay its debts as they fall due. On that basis, our BVI Legal Advisers further confirmed that the declaration of dividends by Semk International in FY2017 as described above was in compliance with relevant law in the BVI. For FY2019 and FY2020, dividends of approximately HK$15.0 million and HK$15.0 million, respectively, were declared by Semk International for distribution to its then shareholders. In addition, for 6M2021, Semk International and ENS Holdings declared dividends of approximately HK$24.1 million and HK$3.4 million to Semk Cayman and ENS International, respectively, for settlement of Semk Cayman's and ENS International's considerations payable for their respective repurchase of shares from OJ VC pursuant to the Reorganisation. All the dividends declared by our Group during the Track Record Period had been fully settled as at the Latest Practicable Date. On 13 September 2021, our Company declared dividends in the amount of approximately HK$27.0 million out of our retained earnings, of which approximately HK$20.0 million had been utilised to settle our amounts due from Semk Holdings, whereas the remaining balance of approximately HK$7.0 million (including the balance of amounts due to Semk Holdings of approximately HK$0.4 million as at 31 October 2021) had been fully settled as at the Latest Practicable Date.

The recommendation of the payment of dividend is subject to the absolute discretion of our Board, and, after Listing, any declaration of final dividend for the year will be subject to the approval of our Shareholders. Our Directors may recommend a payment of dividend in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as they may deem relevant at such time. Any declaration and payment as well as the amount of the dividend will be subject to our constitutional documents and the Companies Act, including the approval of our Shareholders. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

DISTRIBUTABLE RESERVES

As at 30 June 2021, our Company had no distributable reserves available for distribution to our Shareholders.

LISTING EXPENSES

Assuming an Offer Price of HK$2.75 per Share (being the mid-point of the indicative Offer Price range) and that the Over-allotment Option is not exercised, the total Listing expenses to be borne by us are estimated to be approximately HK$44.2 million, accounting for approximately 13.4% of gross proceeds to be received from the Global Offering, of which HK$22.6 million is directly attributable to the issue of new Shares and to be accounted for as a deduction from the equity and the remaining amount of approximately HK$21.6 million has been or will be reflected in our consolidated statements of comprehensive income. Out of this amount, approximately HK$5.3 million and HK$8.1 million had been charged to our profit and loss account for FY2020 and 6M2021, respectively, and the remaining amount of approximately HK$8.2 million is expected to be recognised in our consolidated statements of comprehensive income for FY2021. The actual amounts to be recognised in the profit and loss of our Group or to be capitalised are subject to adjustment based on audit and changes in variables and assumptions. These Listing expenses mainly comprise professional fees paid and payable to the professional parties for their services rendered in relation to the Listing and the Global Offering which are non-underwriting related expenses, including fees for legal advisers and Reporting Accountant of approximately HK$12.0 million, and other non-underwriting-related fees and expenses of approximately HK$12.4 million, as well as the underwriting commission (including SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy) of approximately HK$19.8 million, payable to the Underwriters in connection with the offering of Offer Shares under the Global Offering.

Prospective investors should note that our financial results for the year ending 31 December 2021 will be adversely affected by the non-recurring Listing expenses described above, and may not be comparable to the financial performance of our Group in the past.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Save as the pre-IPO investments made by City Legend as detailed in "History, Corporate Structure and Reorganisation — Investments by the Pre-IPO Investors" in this Prospectus, there is no significant event took place subsequent to 30 June 2021.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

See "Appendix II — A. Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets" in this Prospectus for our unaudited pro forma adjusted consolidated net tangible assets.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules.

MATERIAL ADVERSE CHANGE

Prospective investors should be aware of the impact of the Listing expenses on the financial performance of our Group for FY2021. Save as disclosed in "Summary — Recent Developments and Material Adverse Changes — Business Updates" in this Prospectus, our Directors confirm that since 30 June 2021 (being the date of our Group's latest audited consolidated financial statements were made up as set out in the Accountants' Report in Appendix I to this Prospectus) and up to the date of this Prospectus, (i) there had been no material adverse change in the market conditions or the industry and environment in which we operate that materially and adversely affect our financial or operating position, (ii) there had been no material adverse change in the financial or trading positions or prospect of our Group, and (iii) there had been no event which would materially affect the information shown in the Accountant's Report in Appendix I to this Prospectus.

FUTURE PLANS

See "Business — Our Strategies" in this Prospectus for detailed description of our future plans.

REASONS FOR THE LISTING

Our Directors believe that having a listing status in Hong Kong is beneficial to our Group and would provide the following benefits:

(1) the Listing will enhance our market reputation and brand awareness and enhance our brand image which may attract more customers. It also attracts collaboration partners who are more willing to enter into collaboration with listed companies. Our Directors believe that the listing status will consolidate and strengthen our market position and maintain our competitiveness;

(2) the Listing could bring necessary financial resources to our Group to support and execute our strategies and expansion plan as set out in "Business — Our Strategies" in this Prospectus. This is particularly so as our Group does not have large amount of fixed assets which are usually required as security for long term borrowings, owing to the nature of character branding business. In addition, the covenants of the borrowings may also restrict our ability to pay dividends or obtain additional financing, which may not be desirable for us;

(3) the Listing will help us broaden our Shareholder base and fund raising channels which may enhance in sourcing sufficient capital at competitive costs to facilitate our continuous business development. The net proceeds from the Global Offering will also help us to maintain sufficient working capital for our business operations; and

(4) the Listing status will help our Group raise staff morale and confidence in our Group and improve our ability to attract, retain and motivate experienced and qualified staff, as our Group will be able to offer an equity based incentive programme (i.e. the Share Option Scheme) to our staff. The Listing will also potentially motivate our existing staff to further develop their career with us in view of the perceived status associated with working in a listed company in Hong Kong, and will allows us to attract and retain staff more successfully.

USE OF PROCEEDS

The net proceeds from the issue of the Offer Shares under the Global Offering based on the Offer Price of HK$2.75 per Share, being the mid-point of the indicative Offer Price range, are estimated to be approximately HK$285.8 million, after deducting the estimated underwriting commission and total expenses in the aggregate amount of approximately HK$44.2 million, paid and payable by our Company from the gross proceeds of the Global Offering and assuming the Over-allotment Option is not exercised. We intend to apply the net proceeds from the issue of the Offer Shares under the Global Offering in the following manner:

- approximately HK$73.8 million or approximately 25.8% of the net proceeds will be used for enhancing our brand image and awareness of our IP characters, of which (i) approximately

HK$50.2 million will be used for establishing our flagship store in Shanghai; (ii) approximately HK$15.0 million will be used as our initial payment of minimum guarantee for the future collaboration projects; and (iii) approximately HK$8.6 million will be used for establishing representative offices in Bangkok, Jakarta and Kuala Lumpur. See "Business — Our Strategies — Enhancing our brand image and awareness of our IP characters" for details;

- approximately HK$73.5 million or approximately 25.7% of the net proceeds will be used for establishing our "Fans Platform", of which (i) approximately HK$38.2 million will be used as incentive spending to attract fans to subscribe and join our fans platform; (ii) approximately HK$28.9 million will be used as digital marketing budget for launching the digital marketing campaign to promote our brand new fans platform; (iii) approximately HK$2.4 million will be used for incorporating blockchain knowhow into the B.Duck Family Characters-featured products for authentication purpose; (iv) approximately HK$2.0 million for subscription of big data database to further enhancing our ability to analyse our brand sentiment and develop marketing strategy to attract target audience; and (v) approximately HK$2.0 million will be used for establishing and developing our fans platform in the form of WeChat mini programme. See "Business — Our Strategies — Establishing our Fans Platform" for details;

- approximately HK$50.0 million or approximately 17.5% of the net proceeds will be used for strengthening our new economy online sales channel, of which (i) approximately HK$20.0 million will be used to recruit in total around 48 team members to strengthen our live streaming sales team; (ii) approximately HK$17.2 million will be used for engaging a MCNs to strengthen our live streaming sales campaign and assist us to engage around 10 external leading KOLs for collaboration; and (iii) approximately HK$12.8 million will be used for establishing a KOL Training Centre in Hangzhou. See "Business — Our Strategies — Strengthening our new economy online sales channels" for details;

- approximately HK$33.7 million or approximately 11.8% of the net proceeds will be used for further enhancing our in-house design capabilities to offer creative and innovative solutions by hiring an additional of around 60 designers. See "Business — Our Strategies — Further enhancing our in-house design capability" for details;

- approximately HK$26.3 million or approximately 9.2% of the net proceeds will be used for repaying existing indebtedness of approximately HK$40.0 million as at 31 October 2021 to improve the Group's gearing ratio, which consists of:

  – a bank loan in the outstanding amount of approximately HK$12.6 million as at 31 October 2021 with an interest of 1% per annum below Hong Kong Dollar Prime Rate or 1.7% per annum over one-month HIBOR as determined by such bank, whichever is lower, and with a term of seven years commencing from 12 March 2020;

  - a bank loan in the outstanding amount of approximately HK$7.9 million as at 31 October 2021 with an interest of 1% per annum below the Hong Kong Dollar Prime Rate or 1.8% per annum over one-month HIBOR as determined by such bank, whichever is lower, and with a term of seven years commencing from 13 March 2020;

  - a bank loan in the outstanding amount of approximately HK$1.0 million as at 31 October 2021 with an interest of 1% per annum below the Hong Kong Dollar Prime Rate, with a term of three years commencing from 15 April 2020;

  - an overdraft facility in the outstanding amount of approximately HK$2.8 million as at 31 October 2021 with an interest chargeable at Hong Kong Dollar Prime Rate or 1% over overnight HIBOR, whichever is higher;

  - an instalment loan in the outstanding amount of approximately HK$0.9 million as at 31 October 2021 with an interest rate of 3% per annum below United States Dollar Prime Rate quoted by such bank, and with a term of five years commencing from 6 October 2020. Such loan was incurred in August 2020 with a principal amount of HK$1.1 million and was used to finance the premium of a life insurance policy of a Director;

  - a term loan in the outstanding amount of approximately HK$14.8 million as at 31 October 2021 with an interest rate of 1% per annum below Hong Kong Dollar Prime Rate quoted by such bank, and with a term of five years commencing from 9 June 2021. Such loan was incurred in June 2021 with a principal amount of HK$15.8 million and was used for the repayment of an outstanding indebtedness owing to another bank.

  Apart from the said instalment loan, all the bank facilities mentioned above were used for general working capital purpose; and

- approximately HK$28.5 million or approximately 10.0% of the net proceeds for general working capital.

To the extent that the net proceeds from the Global Offering are not immediately required for the above purposes and to the extent permitted by applicable laws and regulations, if we are unable to effect any part of our future plans as intended, it is the present intention of our Directors that such net proceeds be placed in short-term interest-bearing accounts at authorised banks or authorised financial institutions in the PRC and Hong Kong. In the event that we would require additional financing apart from the net proceeds from the issue of the Offer Shares for our future plans, the shortfall will be financed by our internal resources and bank financing as appropriate.

In the event that the Offer Price is fixed at HK$2.05 or HK$3.45 (being the respective low end and high end of the indicative range of the Offer Price as stated in this Prospectus), the net proceeds from the Global Offering to be received by our Company are approximately HK$206.8 million and HK$364.8 million, respectively, after deduction of all underwriting fees and expenses paid and payable by us. We currently intend to apply the aforesaid net proceeds in the same manner and in the same proportion as shown above.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase to approximately HK$332.3 million, assuming the Offer Price of HK$2.75 per Offer Share (being the mid-point of the indicative Offer Price range). We intend to adjust the allocation of the net proceeds to the above uses, on a pro rata basis.

HONG KONG UNDERWRITERS

China Everbright Securities (HK) Limited

BOCOM International Securities Limited

CMBC Securities Company Limited

First Shanghai Securities Limited

Fosun Hani Securities Limited

Grand China Securities Limited

Guotai Junan Securities (Hong Kong) Limited

Innovax Securities Limited

Livermore Holdings Limited

Maxa Capital Limited

UOB Kay Hian (Hong Kong) Limited

uSmart Securities Limited

Zhong Jia Securities Limited

Zhongtai International Securities Limited

UNDERWRITING

The Global Offering comprises the Hong Kong Public Offering of initially 12,000,000 Hong Kong Offer Shares and the International Offering of initially 108,000,000 International Offer Shares, subject, in each case, to adjustment on the basis as described in "Structure of the Global Offering" in this Prospectus as well as to the Over-allotment Option (in the case of the International Offering).

This Prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between our Company and the Sole Representative (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription by the public in Hong Kong in accordance with the terms and conditions of this Prospectus.

Subject to

(a) the Listing Committee granting listing of, and permission to deal in, the Shares to be offered under the Global Offering as mentioned in this Prospectus (including an additional 18,000,000 Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange; and

(b) certain other conditions set out in the Hong Kong Underwriting Agreement,

the Hong Kong Underwriters have agreed severally but not jointly to subscribe for, or to procure subscribers for, their respective applicable proportions of the Hong Kong Offer Shares in aggregate, now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this Prospectus and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination by notice in writing to our Company from the Sole Representative (for itself and on behalf of the Hong Kong Underwriters) if at or prior to 8:00 a.m. on the Listing Date:

(a) there has come to the notice of the Sole Representative:

(i) that any statement contained in this Prospectus, GREEN Application Form, the formal notice and/or any notices, announcement published on the Stock Exchange website and/or advertisement, documents or other written materials (including any advertisements, brochures, marketing materials and presentations) approved to be used by our Company in connection with the Hong Kong Public Offering, and/or the preliminary offering circular and the final offering circular to be issued by our Company in connection with the International Offering, and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Global Offering (including any supplement or amendments thereto) (collectively, the "**Relevant Documents**") was, when it was issued, or has become, untrue, incorrect, or misleading or deceptive in any material respect, or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the sole and absolute opinion of the Sole Representative (for itself and on behalf of the other Underwriters), fair and honest and based on reasonable assumptions, when taken as a whole; or

(ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute a material omission therefrom; or

(iii) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (in each case, other than on the part of any of the Underwriters) which has or may have or will have a material adverse effect, or any development involving or likely to involve a prospective material adverse effect, in or affecting the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial, operational or otherwise, or performance of our Company and its subsidiaries, taken as a whole ("**Material Adverse Effect**") on the Global Offering; or

(iv) any event, act or omission which gives or is likely to give rise to any material liability of any of our Company, Mr. Hui, Semk Global and Semk Holdings, as warrantors (the "**Warrantors**") under the Hong Kong Underwriting Agreement or under the International Underwriting Agreement; or

(v) any event that has or may have or will have a Material Adverse Effect on our Company or the Global Offering; or

(vi) any breach of, or any event or circumstance rendering untrue or incorrect in any of the representations, warranties, agreements and undertakings to be given by the Warrantors under the Hong Kong Underwriting Agreement; or

(vii) the approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares (including any additional Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(viii) our Company withdraws any of the Relevant Documents or the Global Offering; or

(ix) any person (other than the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents (as defined in the Hong Kong Underwriting Agreement) or to the issue of any of the Offer Documents; or

(x) a significant portion of the orders in the book-building process, at the time the International Underwriting Agreement is entered into have been withdrawn, terminated or cancelled, and the Sole Representative, in its sole and absolute discretion, concludes that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering; or

(b) there shall develop, occur, exist or come into effect:

(i) any local, national, regional, international event or circumstance, or series of events or circumstances, in the nature of force majeure (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities, acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, political change, economic sanctions, withdrawal of trading privileges, state of emergency, outbreaks, escalation, adverse mutation or aggravation of diseases, pandemics or epidemics or interruption or delay in transportation) in or affecting any of the U.S., the United Kingdom, the European Union, Hong Kong, the PRC, the Cayman Islands, the British Virgin Islands or any other jurisdictions relevant to any member of our Group (collectively, the "**Specific Jurisdictions**"); or

(ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any Specific Jurisdictions; or

(iii) any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ Global Market, the Shanghai Stock Exchange and the Shenzhen Stock Exchange; or

(iv) any new Laws (as defined in the Hong Kong Underwriting Agreement), or any change or development involving a prospective change in existing Laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing Laws by any court or other competent authority, in each case, in or affecting any Specific Jurisdictions; or

(v) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), London, the PRC, the European Union or any of the Specific Jurisdictions, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or

(vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or

(vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws (including, without limitation, a material devaluation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency) in or affecting any of the Specific Jurisdictions; or

(viii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in "Risk Factors" in this Prospectus; or

(ix) save as disclosed in this Prospectus, any material litigation or claim of any third party or investigations or actions being announced, threatened or instigated against any member of our Group or any of the Warrantors; or

(x) any executive Director being charged with an indictable offence or prohibited by operation of Law (as defined in the Hong Kong Underwriting Agreement) or otherwise disqualified from taking part in the management of a company; or

(xi) the chairman or chief executive officer of our Company vacating his or her office; or

(xii) the commencement by any governmental or regulatory body or organisation or self-regulatory organisation of any action against any executive Director in his or her capacity as such or an announcement by any governmental, regulatory body or organization that it intends to take any such action; or

(xiii) saved as disclosed in this Prospectus, a contravention by any member of our Group of the Listing Rules, or any other Laws (as defined in the Hong Kong Underwriting Agreement) applicable to the Global Offering; or

(xiv) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or any Shares to be issued pursuant to the Over-allotment Option pursuant to the terms of the Global Offering; or

(xv) saved as disclosed in this Prospectus, non-compliance of this Prospectus and the other Relevant Documents or any aspect of the Global Offering with the Listing Rules or any Laws (as defined in the Hong Kong Underwriting Agreement) applicable to the Global Offering; or

(xvi) unless otherwise expressly consented by the Sole Sponsor, the issue or requirement to issue by our Company of a supplement or amendment to this Prospectus and/or any other documents in connection with the Global Offering pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or SFC; or

(xvii) that a petition or an order is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or

(xviii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or

(xix) any loss or damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person),

which in each case individually or in aggregate in the sole and absolute opinion of the Sole Representative (for itself and on behalf of the other Hong Kong Underwriters):

(A) has or is or will or may or could be expected to have a Material Adverse Effect; or

(B) has or will or may have or could be expected to have a Material Adverse Effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or

(C) makes or will make or may make it inadvisable, inexpedient or impracticable for any material part of the Hong Kong Underwriting Agreement or the Global Offering to proceed or to market the Global Offering; or

(D) has or will or may have the adverse effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings to the Stock Exchange Pursuant to the Listing Rules

(A) Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that, no further Shares or securities convertible into equity securities (whether or not of a class already listed) may be issued by our Company or form the subject of any agreement to such issue (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain circumstances provided under Rule 10.08 of the Listing Rules.

(B) Undertakings by our Controlling Shareholders

By virtue of Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to our Company that, except pursuant to (i) any stock borrowing arrangements or (ii) any exercise of the Over-allotment Option as disclosed in "Structure of the Global Offering" in this Prospectus, each of them will not and will procure that the relevant registered holder(s) (if any) of our Shares in which any of them has a beneficial interest will not:

(a) in the period commencing on the date by reference to which disclosure of his/its shareholdings in our Company is made in this Prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which he/it is shown to be the beneficial owner in this Prospectus; and

(b) in the period of six months commencing from the date on which the period referred to in paragraph above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares to such extent that, immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be our Controlling Shareholders,

in each case, save as permitted under the Listing Rules.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to our Company that within the period commencing from the date by reference to which disclosure for his/its holding of Shares in our Company is made in this Prospectus and ending on the date which is 12 months from the Listing Date, each of them will:

(a) when he/it pledges or charges any Shares legally and/or beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the laws of Hong Kong)) for a bona fide commercial loan, immediately inform our Company in writing of such pledge or charge together with the number of Shares so pledged or charged; and

(b) when they receive indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform our Company in writing of such indications.

Our Company will inform the Stock Exchange in writing as soon as we have been informed of matters referred in above by any of our Controlling Shareholders and disclose such matters by way of announcement pursuant to the requirements under the Listing Rules as soon as possible.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

(A) Undertakings by our Company

Except for the offer and issue of the Offer Shares pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on and including, the date that is six months from the Listing Date (the "**First Six-Month Period**"), our Company hereby undertakes to each of the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Sole Sponsor not to, without the prior written consent of the Sole Sponsor and the Sole Representative (for itself and on behalf of the other Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance (as defined below) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares), or deposit any Shares, as applicable, or other securities of our Company with a depositary in connection with the issue of depositary receipts, or repurchase any Shares or other securities of the Company, as applicable. "**Encumbrance**" means any pledge, charge, lien, mortgage, option, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights of the same nature as that of the foregoing or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect; or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company); or

(c) enter into any transaction with the same economic effect as any transactions specified in (a) or (b) above; or

(d) offer to or agree to or announce, or publicly disclose, any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period). In the event that, during the period of six months immediately following the expiry of the First Six-Month Period (the "**Second Six-Month Period**"), our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces, or publicly discloses, any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company. Each of the Controlling Shareholders undertakes to each of the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the other Hong Kong Underwriters and the Sole Sponsor to procure our Company to comply with the undertakings specified above.

(B) Undertaking by the Controlling Shareholders

Each of the Controlling Shareholders hereby jointly and severally undertakes to each of our Company, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Sole Sponsor that, without the prior written consent of the Sole Sponsor and the Sole Representative (on behalf of the Hong Kong Underwriters) or unless otherwise in compliance with the requirements of the Listing Rules:

(a) he or it will not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for him or it and the companies controlled by he or it (together, the "**Controlled Entities**") will not at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly (including by way of altering the composition or classes of beneficiaries of any trust), conditionally or unconditionally, any Shares or other securities of our Company or any interest respectively therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any such other securities of our Company or any interest in any of the foregoing) beneficially owned by it/him directly or indirectly through its Controlled Entities (the "**Relevant Securities**"), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities, or (iii) enter into or effect any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or (iv) offer to or agree to or announce any intention to enter into or effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities of our Company will be completed within the First Six-Month Period);

(b) he or it will not, and shall procure that the Controlled Entities will not, during the Second Six-Month Period, enter into any of the transactions specified in (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, he or it will cease to be a "controlling shareholder" (as defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be "controlling shareholders" (as defined in the Listing Rules) of our Company;

(c) until the expiry of the Second Six-Month period, in the event that he or it enters into any of the transactions specified in (a)(i), (ii) or (iii) above or offers to or agrees to or announces or publicly discloses any intention to effect any such transaction, he or it will take all steps to ensure that he or it will not create a disorderly or false market for any Shares or other securities of our Company; and

(d) he or it shall, and shall procure that the relevant registered holder(s) and other Controlled Entities shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by he or it or by the registered holder(s) and/or other Controlled Entities of any Shares or other securities of our Company.

Each of the Controlling Shareholders further undertakes to each of our Company, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, within the period from the date by reference to which disclosure of his or its shareholding in our Company is made in this Prospectus and ending on the date which is twelve months from the date of Listing, he or it will:

(i) when he or it pledges or charges any securities or interests in the Relevant Securities in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company and the Sole Sponsor in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and

(ii) when he or it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Sponsor in writing of such indications.

Our Company shall inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by the Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with the Listing Rules as soon as possible.

Indemnity

We, our Controlling Shareholders, and Mr. Hui have jointly and severally undertaken to indemnify, among others, each of the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any material breach by us of the Hong Kong Underwriting Agreement.

Hong Kong Underwriters' Interests in Our Company

Except for their respective obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interest in our Company or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company or any member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

The International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we and our Controlling Shareholders will enter into the International Underwriting Agreement with the Sole Representative and the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters would severally and not jointly agree to purchase, or procure purchasers to purchase, the Offer Shares being offered pursuant to the International Offering (subject to, amongst others, any reallocation between the International Offering and the Hong Kong Public Offering). It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Over-allotment Option

We expect to grant to the Sole Representative (on behalf of the International Underwriters), exercisable in whole or in part by the Sole Representative at its sole and absolute discretion, the Over-allotment Option, which will be exercisable at any time and from time to time on or before the expiration of the period of 30 calendar days from the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 18,000,000 Shares, representing 15.0% of the Offer Shares initially available under the Global Offering, at the Offer Price, to cover over-allocations in the International Offering, if any.

Commissions and Expenses

The Sole Representative (for itself and on behalf of the Hong Kong Underwriters) will receive an underwriting commission of 5.50% of the aggregate Offer Price in respect of all the Hong Kong Offer Shares (excluding any International Offer Shares reallocated to and from the Hong Kong Public Offering). In addition, we will pay in our discretion an incentive fee of up to 0.50% of the aggregate Offer Price in respect of all the Hong Kong Offer Shares (excluding any International Offer Shares reallocated to and from the Hong Kong Public Offering).

For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the Hong Kong Underwriters will not be entitled to the underwriting commission regarding such Hong Kong Offer Shares reallocated to the International Offering.

Assuming the Over-allotment Option is not exercised, the aggregate commissions and fees, together with Stock Exchange listing fees, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005% and Financial Reporting Council transaction levy of 0.00015%, legal and other professional fees and printing and all other expenses relating to the Global Offering, which are currently estimated to amount in aggregate to HK$44.2 million (assuming an Offer Price of HK$2.75 per Offer Share, being the mid-point of the indicative Offer Price range stated in this Prospectus), are payable and borne by our Company.

MINIMUM PUBLIC FLOAT

Our Directors will ensure that there will be a minimum of 25.0% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

INDEPENDENCE OF THE SOLE SPONSOR

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the "**Syndicate Members**") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to our Shares, those activities could include acting as agent for buyers and sellers of our Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in our Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including our Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of our Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in our Shares, in baskets of securities or indices including our Shares, in units of funds that may purchase our Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having our Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in our Shares in most cases.

All such activities may occur both during and after the end of the stabilising period described in "Structure of the Global Offering" in this Prospectus. Such activities may affect the market price or value of our Shares, the liquidity or trading volume in our Shares and the volatility of the price of our Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

(a) the Syndicate Members (other than the Stabilising Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

THE GLOBAL OFFERING

The Global Offering comprises:

(a) the Hong Kong Public Offering of 12,000,000 Shares (subject to reallocation as mentioned below) for subscription by the public in Hong Kong as described in "The Hong Kong Public Offering" in this section; and

(b) the International Offering of an aggregate of 108,000,000 Shares (subject to reallocation as mentioned below and the Over-allotment Option) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, as described in "— The International Offering" below.

Investors may either apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both. References in this Prospectus to applications, GREEN Application Form, application monies or the procedures for application relate solely to the Hong Kong Public Offering.

The Offer Shares will represent 12.0% of the total issued share capital of our Company immediately after completion of the Global Offering, the Share Subdivision and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised).

THE HONG KONG PUBLIC OFFERING

Number of Shares initially offered

We are initially offering 12,000,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10.0% of the total number of Shares initially available under the Global Offering. Subject to the reallocation of Shares between the Hong Kong Public Offering and the International Offering, the Hong Kong Offer Shares will initially represent approximately 1.20% of the total issued share capital of our Company immediately following the completion of the Global Offering, the Share Subdivision and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised). The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to professional, institutional and/or other investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealings in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in "Conditions of the Hong Kong Public Offering" in this section.

Allocation

The allocation of the Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Offer Shares available under the Hong Kong Public Offering is to be divided equally into two pools:

- Pool A: The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of HK$5 million or less (excluding brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy payable); and

- Pool B: The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of more than HK$5 million and up to the total value of pool B (excluding brokerage, SFC transaction levy, Hong Kong Stock Exchange trading fee and Financial Reporting Council transaction levy payable).

Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools.

Multiple applications or suspected multiple applications within either pool or between pools and any application for more than 6,000,000 Hong Kong Offer Shares are liable to be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached as further described below:

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 36,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 48,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 60,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

In addition, the Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Representative, subject to the requirements of Guidance Letter HKEX-GL91-18. If the Hong Kong Public Offering is not fully subscribed for, the Sole Representative has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering. In addition, the Sole Representative may in its discretion reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In particular, if (i) the International Offering is not fully subscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed; or (ii) the International Offering is fully subscribed or oversubscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed with the number of Offer Shares validly applied for in the Hong Kong Public Offering representing less than 15 times of the number of Shares initially available for subscription under the Hong Kong Public Offering, the Sole Representative has the authority to reallocate International Offer Shares originally included in the International Offering to the Hong Kong Public Offering, subject to the requirements of Guidance Letter HKEX-GL91-18. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, (i) the number of International Offer Shares reallocated to the Hong Kong Public Offering must not exceed 12,000,000 Offer Shares, representing 10% of the Offer Shares initially available under the Global Offering, increasing the total number of Offer Shares available under the Hong Kong Public Offering to 24,000,000 Offer Shares, representing double of the initial allocation to the Hong Kong Public Offering and 20% of the Offer Shares initially available under the Global Offering, and (ii) the final Offer Price shall be fixed at HK$2.05 per Offer Share, the low-end of the Offer Price range stated in this Prospectus.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Representative in its discretion considers appropriate.

In the event that both the Hong Kong Public Offering and International Offering are undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this Prospectus, the GREEN Application Form and the Underwriting Agreements.

Any such clawback and reallocation between the International Offering and the Hong Kong Public Offering will be completed prior to any adjustments of the number of the Offer Shares pursuant to the exercise of the Over-allotment Option, if any.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering. Multiple or suspected multiple applications within either pool or between pools and any application for more than 50% of the Hong Kong Offer Shares initially comprised in the Hong Kong Public Offering are liable to be rejected.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$3.45 per Offer Share in addition to the brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy, amounting to a total of HK$3,484.77 per board lot of 1,000 Offer Shares. If the Offer Price, as finally determined in the manner described in the "Price Determination of the Global Offering" in this section, is less than the maximum price of HK$3.45 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy attributable to the surplus application monies) will be made to successful applicants, without interest. See "How to Apply for the Hong Kong Offer Shares" in this Prospectus for further details.

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

The International Offering will consist of an initial offering of 108,000,000 Shares (subject to reallocation and the Over-allotment Option), representing 90.0% of the total number of Offer Shares initially available under the Global Offering and approximately 10.8% of the total issued share capital immediately after completion of the Global Offering, the Share Subdivision and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised). The International Offering will be offered by us to professional, institutional and/or other investors in Hong Kong.

Allocation

The International Offering will include selective marketing of the International Offer Shares to professional, institutional and/or other investors anticipated to have a sizeable demand for the International Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealings in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of the International Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in "Price Determination of the Global Offering" below and based on a number of factors, including the level and timing of demand, and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and the Shareholders as a whole.

The Sole Representative (for itself and on behalf of the Underwriters) may require any investor who has been offered International Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Representative so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application of the Hong Kong Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Offering may change as a result of the clawback arrangement as described in "The Hong Kong Public Offering — Reallocation" in this section and/or the exercise of the Over-allotment Option in whole or in part. In addition, the Sole Representative may reallocate International Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy the valid applications under the Hong Kong Public Offering that exceeds the number of Hong Kong Offer Shares initially offered. The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Representative, subject to the requirements of Guidance Letter HKEX-GL91-18.

PRICE DETERMINATION OF THE GLOBAL OFFERING

The International Underwriter(s) will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about Friday, 7 January 2022 by agreement between the Sole Representative (for itself and on behalf of the Underwriters) and our Company, and the number of Offer Shares to be allocated or sold under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK$3.45 per Offer Share and is expected to be not less than HK$2.05 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this Prospectus. If you apply for the Offer Shares under the Hong Kong Public Offering, you must pay the maximum price of HK$3.45 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005% and Financial Reporting Council transaction levy of 0.00015%.

If the Offer Price, as finally determined in the manner described below, is lower than HK$3.45, we will refund the respective difference, including brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy attributable to the surplus application monies. We will not pay interest on any refunded amounts. For more details, please refer to "How to Apply for the Hong Kong Offer Shares" in this Prospectus.

The Sole Representative (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and/or other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published on the website of our Company (**www.semk.net**) and the website of the Stock Exchange (**www.hkexnews.hk**) a notice of the reduction and to be issued a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range, extend the period under which the Hong Kong Public Offering was opened for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and give potential investors who had applied for the Hong Kong Offer Shares the right to withdraw their applications under the Hong Kong Public Offering. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Representative (for itself and on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. In the event there is a reduction in the Offer Shares and/or indicative Offer Price range, if the applicants have already submitted an application for the Hong Kong Offer Shares under the Hong Kong Public Offering, they will be allowed to subsequently withdraw their applications. However, if the Offer Shares and/or the Offer Price range is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Sole Representative, will under no circumstances be set outside the Offer Price range as stated in this Prospectus.

In the event of a reduction in the number of Offer Shares, the Sole Representative may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised).

The net proceeds of the Global Offering accruing to our Company (after deduction of underwriting fees and estimated expenses payable by our Company in relation to the Global Offering) are estimated to be approximately HK$285.8 million, assuming an Offer Price per Offer Share of HK$2.75 (being the mid-point of the stated indicative Offer Price range of HK$2.05 to HK$3.45 per Offer Share).

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allotment of the Hong Kong Offer Shares available under the Hong Kong Public Offering, are expected to be announced on Friday, 14 January 2022 on the website of our Company (**www.semk.net**) and the website of the Stock Exchange (**www.hkexnews.hk**).

If the Sole Representative (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on or before Thursday, 13 January 2022, the Global Offering will not become unconditional and will lapse immediately.

UNDERWRITING AGREEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter(s) under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

Our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, and the International Underwriter(s) expect to enter into the International Underwriting Agreement relating to the International Offering on or about the Price Determination Date. These underwriting arrangements, and the respective Underwriting Agreements, are summarised in "Underwriting" in this Prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second settlement day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that our Company will grant to the Sole Representative (for itself and on behalf of the Underwriters) the Over-allotment Option, exercisable by the Sole Representative (for itself and on behalf of the Underwriters) to cover over-allocations under the International Offering (if any). Pursuant to the Over-allotment Option, the Sole Representative (for itself and on behalf of the Underwriters) will have the right, exercisable at any time from the Listing Date until Sunday, 6 February 2022, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering, to require our Company to issue up to 18,000,000 Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering to cover over-allocation in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 1.77% of the enlarged issued share capital of our Company in issue following completion of the Share Subdivision, the Capitalisation Issue, the Global Offering and the exercise of the Over-allotment Option.

The additional net proceeds that we would receive if the Over-allotment Option is exercised in full (assuming the Offer Price of HK$2.75 per Share (being the mid-point of the indicative Offer Price range)) are estimated to be approximately HK$46.5 million, which would be applied to the respective uses on a pro-rata basis as disclosed in "Future Plans and Use of Proceeds — Implementation Plans" in this Prospectus.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the Offer Price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilising Manager, or its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or supporting the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period on and after the Listing Date. However, there is no obligation on the Stabilising Manager or any persons acting for it, to conduct any such stabilising action. Such stabilising action, if taken, will be conducted at the sole and absolute discretion of the Stabilising Manager or its affiliates or any person acting for it and may be discontinued at any time, and is required to be brought to an end by Sunday, 6 February 2022, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering.

Stabilisation action permitted in Hong Kong under the Securities and Futures (Price Stabilising) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of our Shares, (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares, (iii) purchasing, or agreeing to purchase, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases, and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for and investors in the Shares should note that:

(a) the Stabilising Manager (or any person acting for it) may, in connection with the stabilising action, maintain a long position in the Shares;

(b) there is no certainty as to the extent to which and the time or period for which the Stabilising Manager (or any person acting for it) will maintain such a long position;

(c) liquidation of any such long position by the Stabilising Manager (or any person acting for it) and selling in the open market, may have an adverse impact on the market price of the Shares;

(d) no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date and is expected to expire on Sunday, 6 February 2022, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After such date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;

(e) the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and

(f) stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price, which means that stabilising bids or transactions effected may be made at a price below the price paid by applicants for, or investors in, the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilising) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilising Manager (or any person acting for it) may cover such over-allocations by (among other methods) exercising the Over-allotment Option in full or in part, using Shares purchased by the Stabilising Manager (or any person acting for it) in the secondary market at prices that do not exceed the Offer Price, or through the stock borrowing arrangement as detailed below or a combination of these means.

Stock Borrowing Agreement

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilising Manager (or any person acting for it) may choose to enter into an agreement with Semk Global, our Controlling Shareholder, to borrow, whether on its own or through its affiliates, up to 18,000,000 Shares, representing 15% of the total number of the Offer Shares initially available for the Global Offering. The stock borrowing arrangement under such an agreement, if entered into, will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules, provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with as follows:

(a) such stock borrowing arrangement is fully described in this Prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;

(b) the maximum number of Shares to be borrowed from Semk Global by the Stabilising Manager (or any person acting for it) is the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option;

(c) the same number of Shares so borrowed must be returned to Semk Global or its nominee(s) within three business days following the earlier of (a) the last day on which the Over-allotment Option may be exercised, and (b) the day on which the Over-allotment Option is exercised in full; and

(d) no payment will be made to Semk Global by the Underwriters and the Stabilising Manager.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(a) the Listing Division of the Stock Exchange granting the listing of, and permission to deal in, the Shares being offered pursuant to the Global Offering (including any Shares to be issued upon the exercise of the Over-allotment Option);

(b) the Offer Price having been fixed on or about the Price Determination Date;

(c) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and

(d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and those of the International Underwriter(s) under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with its terms, on or before the dates and times specified in the respective agreements.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Representative (for itself and on behalf of the Underwriters), or the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Global Offering will be published on our Company's website (**www.semk.net**) and the Stock Exchange's website (**www.hkexnews.hk**) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in "How to Apply for the Hong Kong Offer Shares" in this Prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving banks or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Shares are expected to be issued on Friday, 14 January 2022 but will only become valid evidence of title at 8:00 a.m. on Monday, 17 January 2022 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" in this Prospectus has not been exercised.

DEALINGS

Assuming that the Global Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, 17 January 2022, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Monday, 17 January 2022.

The Shares will be traded in board lots of 1,000 Shares each. The stock code of the Shares is 2250.

1. HOW TO APPLY

To apply for the Hong Kong Offer Shares, you may:

(1) apply online through the **eWhite Form** service at **www.ewhiteform.com.hk**;

(2) apply through CCASS EIPO service to electronically cause HKSCC Nominees to apply on your behalf, including by:

(i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or

(ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (**https://ip.ccass.com**) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Center at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

We, the Sole Representative, the **eWhite Form** Service Provider and their respective agents may reject or accept any application, in full or in part, for any reason at their discretion.

2. WHO CAN APPLY

Eligibility for the Application

You can apply for the Hong Kong Offer Shares if you or the person(s) for whose benefit you are applying:

— are 18 years of age or older;

— have a Hong Kong address; and

— are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act of 1933, as amended and supplemented or otherwise modified from time to time ("**Regulation S**")).

If an application is made by a person under a power of attorney, our Company and the Sole Representative may accept or reject it at their discretion and on any conditions they think fit, including provision of evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **eWhite Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

— are an existing beneficial owner of Shares in our Company and/or any its subsidiaries;

— are a Director or chief executive officer of our Company and/or any of its subsidiaries;

— are a close associate (as defined in the Listing Rules) of any of the above; or

— have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

Items Required for the Application

If you apply for the Hong Kong Offer Shares online through the **eWhite Form** service, you must:

— have a valid Hong Kong identity card number; and

— provide a valid e-mail address and a contact telephone number.

If you are applying for the Hong Kong Offer Shares online by instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

3. TERMS AND CONDITIONS OF AN APPLICATION

By applying through the application channels specified in this Prospectus, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

(i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Representative (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the Companies Act and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this Prospectus and in the GREEN Application Form and agree to be bound by them;

(iv) confirm that you have received and read this Prospectus and have only relied on the information and representations contained in this Prospectus in making your application and will not rely on any other information or representations except those in any supplement to this Prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this Prospectus;

(vi) agree that none of our Company, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this Prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving banks, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this Prospectus and the GREEN Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) and/or e-Refund payment instruction to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that our Company and the Sole Representative will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) understand that the Sole Representative may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering and in accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering. Further details of the reallocation are stated in "Structure of the Global Offering" in this Prospectus;

(xix) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC or to the **eWhite Form** Service Provider by you or by any one as your agent or by any other person; and

(xx) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC or to the **eWhite Form** Service Provider; and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as their agent.

4. MINIMUM APPLICATION AMOUNT AND PERMITTED NUMBERS

Your application through the **eWhite Form** service or the **CCASS EIPO** service must be for a minimum of 1,000 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application
	HK$		*HK$*		*HK$*		*HK$*
1,000	3,484.77	15,000	52,271.57	250,000	871,192.71	4,000,000	13,939,083.30
2,000	6,969.55	20,000	69,695.41	300,000	1,045,431.25	5,000,000	17,423,854.13
3,000	10,454.32	25,000	87,119.27	400,000	1,393,908.33	6,000,000(1)	20,908,624.95
4,000	13,939.08	30,000	104,543.13	500,000	1,742,385.42		
5,000	17,423.86	40,000	139,390.84	750,000	2,613,578.12		
6,000	20,908.63	50,000	174,238.55	1,000,000	3,484,770.83		
7,000	24,393.40	75,000	261,357.82	1,500,000	5,227,156.24		
8,000	27,878.17	100,000	348,477.09	2,000,000	6,969,541.65		
9,000	31,362.94	150,000	522,715.63	2,500,000	8,711,927.07		
10,000	34,847.71	200,000	696,954.17	3,000,000	10,454,312.48		

Note:

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. APPLYING THROUGH eWHITE FORM SERVICE

General

Individuals who meet the criteria in "2. Who Can Apply" in this section above may apply through the **eWhite Form** service for the Hong Kong Offer Shares to be allotted and registered in their own names through the designated website at **www.ewhiteform.com.hk**.

Detailed instructions for application through the **eWhite Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **eWhite Form** Service Provider to apply on the terms and conditions in this Prospectus, as supplemented and amended by the terms and conditions of the **eWhite Form** service.

Time for submitting applications under the eWhite Form

You may submit your application to the **eWhite Form** Service Provider at **www.ewhiteform.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, 30 December 2021 until 11:30 a.m. on Friday, 7 January 2022 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 7 January 2022 or such later time set forth in "10. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists" in this section.

No multiple applications

If you apply by means of the **eWhite Form**, once you complete payment in respect of any **electronic application instructions** given by you or for your benefit through the **eWhite Form** service to make an application for the Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving **electronic application instructions** under the **eWhite Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **eWhite Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F., One & Two Exchange Square
8 Connaught Place
Central, Hong Kong

and complete an input request form.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Sole Representative and our Hong Kong Branch Share Registrar.

Applying through CCASS EIPO Service

Where you have applied through **CCASS EIPO** service (either indirectly through a broker or custodian or directly) and an application is made by HKSCC Nominees on your behalf:

By applying through **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to us or any other person in respect of the things mentioned below:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this Prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

— agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

— agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

— undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering;

— (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

— (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

— confirm that you understand that our Company, our Directors, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners or the Hong Kong Underwriters will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

— authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

— confirm that you have read the terms and conditions and application procedures set out in this Prospectus and agree to be bound by them;

— confirm that you have received and/or read a copy of this Prospectus and have relied only on the information and representations in this Prospectus in causing the application to be made, save as set out in any supplement to this Prospectus;

— agree that none of our Company, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this Prospectus (and any supplement to it);

— agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, the receiving banks, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters and/or its respective advisers and agents;

— agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

— agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this Prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this Prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this Prospectus;

— agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;

— agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

— agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the Companies Act and the Articles of Association; and

— agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Applying through CCASS EIPO Service

By applying through **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

— instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

— instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy, the Stock Exchange trading fee and Financial Reporting Council transaction levy by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy) by crediting your designated bank account; and

— instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this Prospectus.

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table below. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application
	HK$		*HK$*		*HK$*		*HK$*
1,000	3,484.77	15,000	52,271.57	250,000	871,192.71	4,000,000	13,939,083.30
2,000	6,969.55	20,000	69,695.41	300,000	1,045,431.25	5,000,000	17,423,854.13
3,000	10,454.32	25,000	87,119.27	400,000	1,393,908.33	6,000,000[1]	20,908,624.95
4,000	13,939.08	30,000	104,543.13	500,000	1,742,385.42		
5,000	17,423.86	40,000	139,390.84	750,000	2,613,578.12		
6,000	20,908.63	50,000	174,238.55	1,000,000	3,484,770.83		
7,000	24,393.40	75,000	261,357.82	1,500,000	5,227,156.24		
8,000	27,878.17	100,000	348,477.09	2,000,000	6,969,541.65		
9,000	31,362.94	150,000	522,715.63	2,500,000	8,711,927.07		
10,000	34,847.71	200,000	696,954.17	3,000,000	10,454,312.48		

Note:

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, 30 December 2021 – 9:00 a.m. to 8:30 p.m.
Friday, 31 December 2021 – 8:00 a.m. to 8:30 p.m.
Monday, 3 January 2022 – 8:00 a.m. to 8:30 p.m.
Tuesday, 4 January 2022 – 8:00 a.m. to 8:30 p.m.
Wednesday, 5 January 2022 – 8:00 a.m. to 8:30 p.m.
Thursday, 6 January 2022 – 8:00 a.m. to 8:30 p.m.
Friday, 7 January 2022 – 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 30 December 2021 until 12:00 noon on Friday, 7 January 2022 (24 hours daily, except on Friday, 7 January 2022, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 7 January 2022, the last application day or such later time as described in "10. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists" in this section.

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal data

The section of the GREEN Application Form headed "Personal Data" applies to any personal data held by our Company, our Hong Kong Branch Share Registrar, the receiving banks, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

By applying through CCASS EIPO service or the eWhite Form service, you agree to all of the terms of the Personal Information Collection Statement below.

Personal Information Collection Statement

This Personal Information Collection Statement informs the applicant for and holder of the Shares of the policies and practices of our Company and our Hong Kong Branch Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong) (the "**PDPO**").

Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities of our Company or registered holders of securities of our Company to supply their latest correct personal data to our Company or our agents and/or our Hong Kong Branch Share Registrar when applying for securities of our Company or transferring securities of our Company into or out of their names or in procuring the services of our Hong Kong Branch Share Registrar.

Failure to supply the requested data may result in your application for securities of our Company being rejected or in delay or inability of our Company and/or our Hong Kong Branch Share Registrar to effect transfers or otherwise render our/their services. It may also prevent or delay registration or transfer of the Hong Kong Offer Shares which you have successfully applied for and/or the despatch of Share certificate(s), and/or the despatch of e-Refund payment instructions, and/or the despatch of refund cheque (s) to which you are entitled.

It is important that holders of securities of our Company inform our Company and our Hong Kong Branch Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

The personal data of the applicants and the holders of securities of our Company may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and e-Refund payment instructions/refund cheque, where applicable, and verification of compliance with the terms and application procedures set out in the GREEN Application Form and this Prospectus and announcing results of allocation of the Hong Kong Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of holders of securities of our Company including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of holders of securities of our Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of our Company, such as dividends, rights issues and bonus issues, etc;
- distributing communications from our Company and our subsidiaries;
- compiling statistical information and Shareholder profiles;

- making disclosures as required by laws, rules or regulations;
- disclosing identities of successful applicants for securities of our Company by way of press announcement(s) or otherwise;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable our Company and our Hong Kong Branch Share Registrar to discharge our/their obligations to holders of securities of our Company and/or regulators and/or any other purpose to which the holders of securities of our Company may from time to time agree.

Transfer of personal data

Personal data held by our Company and our Hong Kong Branch Share Registrar relating to the holders of securities of our Company will be kept confidential but our Company and our Hong Kong Branch Share Registrar may, to the extent necessary for achieving the above purposes or any of them, make such enquiries as considered necessary to confirm the accuracy of the personal data and in particular, disclose, obtain, transfer (whether within or outside Hong Kong) the personal data of the holders of securities of our Company to, from or with any and all of the following persons and entities:

- our Company or our appointed agents such as financial advisers, receiving bankers and overseas principal registrars;
- where applicants for securities of our Company request deposit into CCASS, to HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to our Company and/or our Hong Kong Branch Share Registrar in connection with the operation of their respective businesses;
- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities of our Company have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers, etc.

Retention of personal data

Our Company and our Hong Kong Branch Share Registrar will keep the personal data of the applicants and holders of securities of our Company for as long as necessary to fulfil the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the PDPO.

Access and correction of personal data

The PDPO provides the holders of securities of our Company with rights to ascertain whether our Company or our Hong Kong Branch Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the PDPO, our Company and our Hong Kong Branch Share Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices and the kinds of data held should be addressed to our Company at our registered office disclosed in "Corporate Information" in this Prospectus or as notified from time to time in accordance with applicable law, for the attention of the secretary or (as the case may be) our Hong Kong Branch Share Registrar for the attention of the privacy compliance officer for the purposes of the PDPO.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **eWhite Form** service is also only a facility provided by the **eWhite Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Representative, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 7 January 2022, the last day for applications, or such later time as described in "10. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists" in this section.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly or indirectly through your broker or custodian) or through **eWhite Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**, and the number of Hong Kong Offer Shares applied by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your behalf. For the avoidance of doubt, giving an **electronic application instruction** under the **eWhite Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. However, any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made). If an application is made by an unlisted company and:

— the principal business of that company is dealings in securities; and

— you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"*Unlisted company*" means a company with no equity securities listed on the Stock Exchange.

"*Statutory control*" means you:

— control the composition of the board of directors of the company;

— control more than half of the voting power of the company; or

— hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK$3.45 per Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.005% and Financial Reporting Council transaction levy of 0.00015%. This means that for one board lot of 1,000 Hong Kong Offer Shares, you will pay HK$3,484.77.

You must pay the maximum Offer Price, brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy in full upon application for Shares under the terms set out in this Prospectus.

You may submit an application through the **eWhite Form** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or electronic application instructions in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in this Prospectus, or otherwise specified on the designated website at **www.ewhiteform.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC and in the case of the Financial Reporting Council transaction levy, collected by the Stock Exchange on behalf of the Financial Reporting Council).

For further details on the Offer Price, see "Structure of the Global Offering" in this Prospectus.

10. EFFECT OF BAD WEATHER AND EXTREME CONDITIONS ON THE OPENING AND CLOSING OF THE APPLICATION LISTS

The application lists will not open if there is/are:

— a tropical cyclone warning signal number 8 or above;

— a "black" rainstorm warning; and/or

— Extreme Conditions

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 7 January 2022. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 7 January 2022 or if there is/are a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in "Expected Timetable" in this Prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Friday, 14 January 2022 on our Company's website at **www.semk.net** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

— in the announcement to be posted on our Company's website at **www.semk.net** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 8:00 a.m. on Friday, 14 January 2022;

— from the designated results of allocations website at **www.ewhiteform.com.hk/results** with a "search by ID" function on a 24-hour basis from 9:00 a.m. on Friday, 14 January 2022 to 12:00 midnight on Thursday, 20 January 2022;

— by telephone enquiry line by calling (852) 2153 1688 between 9:00 a.m. and 6:00 p.m. from Friday, 14 January 2022 to Thursday, 20 January 2022 on a business day;

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in "Structure of the Global Offering" in this Prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By applying through the **CCASS EIPO** service or through the **eWhite Form** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this Prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this Prospectus.

If any supplement to this Prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Sole Representative and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

— within three weeks from the closing date of the application lists; or

— within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

— you make multiple applications or are suspected of making multiple applications;

— you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;

— your payment is not made correctly;

— your **electronic application instructions** through the **eWhite Form** service are not completed in accordance with the instructions, terms and conditions on the designated website **www.ewhiteform.com.hk**;

— the Underwriting Agreements do not become unconditional or are terminated;

— our Company or the Sole Representative believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or

— your application is for more than 50% of the Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK$3.45 per Offer Share (excluding brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy thereon), or if the conditions of the Hong Kong Public Offering set out in "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this Prospectus are not fulfilled or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Friday, 14 January 2022.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made through the **CCASS EIPO** service where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application.

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Friday, 14 January 2022. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Monday, 17 January 2022 provided that the Global Offering has become unconditional and the right of termination described in "Underwriting" in this Prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply through the eWhite Form service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate from our Hong Kong Branch Share Registrar, Boardroom Share Registrars (HK) Limited at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 14 January 2022, or such other date as notified by our Company as the date of despatch/collection of share certificate e-Refund payment instructions/refund cheques.

If you do not collect your share certificate personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Friday, 14 January 2022 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque by ordinary post at your own risk.

(ii) If you apply through CCASS EIPO service

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of share certificates into CCASS and refund of application monies

— If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, 14 January 2022, or, on any other date determined by HKSCC or HKSCC Nominees.

— Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "11. Publication of Results" in this section above on Friday, 14 January 2022. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 14 January 2022 or such other date as determined by HKSCC or HKSCC Nominees.

— If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

— If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, 14 January 2022. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

— Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy, Stock Exchange trading fee and Financial Reporting Council transaction levy but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, 14 January 2022.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants is required to take place in CCASS on the second settlement day after any trading day.

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

Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangement as such arrangements may affect their rights and interests.

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

The following is the text of a report set out on pages I-1 to I-4, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

pwc

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SEMK HOLDINGS INTERNATIONAL LIMITED AND CHINA EVERBRIGHT CAPITAL LIMITED

Introduction

We report on the historical financial information of Semk Holdings International Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages I-4 to I-74, which comprises the consolidated statements of financial position as at 31 December 2018, 2019 and 2020 and 30 June 2021, the company statements of financial position as at 31 December 2020 and 30 June 2021, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021 (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages I-4 to I-74 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 December 2021 (the "**Prospectus**") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2020 and 30 June 2021 and the consolidated financial position of the Group as at 31 December 2018, 2019 and 2020 and 30 June 2021, and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2020 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "LISTING RULES") AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 12 to the Historical Financial Information which contains information about the dividend paid by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 December 2021

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

The Historical Financial information is presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
		2018	2019	2020	2020	2021
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000 (Unaudited)*	*HK$'000*
Revenue	*5*	200,864	243,046	233,515	92,876	123,773
Other income	*6*	3,037	6,147	8,739	3,582	4,567
Other (losses)/gains, net	*6*	(1,195)	(437)	3,145	(677)	361
Cost of inventories sold	*16*	(69,374)	(75,147)	(54,910)	(25,195)	(27,668)
Employee benefit expenses	*7*	(42,859)	(51,192)	(42,340)	(19,900)	(29,860)
Promotion costs		(18,049)	(20,676)	(15,874)	(6,870)	(8,139)
Listing expenses		(4,112)	(8,754)	(5,288)	–	(8,145)
Online platform usage fee		(16,219)	(16,957)	(14,356)	(6,724)	(6,722)
Depreciation and amortisation		(7,790)	(8,606)	(10,069)	(5,009)	(4,698)
Net (impairment losses)/reversal of impairment losses on financial assets and contract assets	*3.1(ii)*	(1,121)	(2,216)	(3,234)	(1,649)	1,929
Other expenses	*8*	(24,277)	(27,422)	(25,294)	(11,157)	(17,997)
Operating profit		18,905	37,786	74,034	19,277	27,401
Finance income	*9*	53	60	43	19	10
Finance costs	*9*	(1,108)	(1,706)	(2,149)	(1,168)	(803)
Finance costs, net	*9*	(1,055)	(1,646)	(2,106)	(1,149)	(793)
Profit before income tax		17,850	36,140	71,928	18,128	26,608
Income tax expense	*10*	(7,988)	(12,038)	(17,380)	(3,903)	(9,147)
Profit for the year/period attributable to owners of the Company		9,862	24,102	54,548	14,225	17,461
Other comprehensive income:						
Item that may be reclassified to profit or loss:						
– Currency translation differences		242	(507)	2,050	(25)	1,414
		242	(507)	2,050	(25)	1,414
Total comprehensive income for the year/period attributable to the owners of the Company		10,104	23,595	56,598	14,200	18,875
Earnings per share for profit attributable to owners of the Company for the year/period *(Note)*						
– Basic (expressed in HK$ per share)	*11*	9.86	24.10	54.55	14.23	17.46
– Diluted (expressed in HK$ per share)	*11*	9.86	24.10	54.55	14.23	17.46

Note: The earnings per share presented above has not been taken into account the share subdivision and share capitalisation issue pursuant to the resolutions by the shareholders passed on 20 December 2021 as the share subdivision and share capitalisation issue has not become effective as at the date of this report.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
		2018	2019	2020	2021
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Non-current assets					
Property, plant and equipment	*13*	6,083	6,671	4,940	4,119
Intangible assets	*15*	639	704	2,141	2,141
Right-of-use assets	*14*	10,609	11,138	5,401	6,067
Deferred income tax assets	*17*	3,828	3,011	3,717	3,714
Deposits, prepayments and other receivables	*19*	3,378	5,556	2,559	4,239
		24,537	27,080	18,758	20,280
Current assets					
Inventories	*16*	21,768	22,840	21,448	33,755
Trade receivables	*18*	5,904	20,191	38,275	33,606
Contract assets	*5*	19,040	15,741	21,295	16,491
Deposits, prepayments and other receivables	*19*	8,314	7,515	8,732	10,497
Amounts due from related parties	*29*	510	10,790	15,618	19,975
Cash and cash equivalents	*20*	39,090	35,341	64,772	38,293
		94,626	112,418	170,140	152,617
Total assets		119,163	139,498	188,898	172,897
Equity and liabilities					
Equity attributable to owners of the Company					
Share capital	*21(b)*	–	–	–	78
Share premium	*21(b)*	–	–	–	64,806
Combined capital	*21(a)*	484	484	484	–
Capital reserve		30,014	30,014	30,014	(34,386)
Retained earnings		6,322	12,856	48,568	38,161
Other reserves	*22*	1,132	3,193	9,079	10,911
Total equity		37,952	46,547	88,145	79,570

		As at 31 December			As at 30 June
		2018	**2019**	**2020**	**2021**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Liabilities					
Non-current liabilities					
Lease liabilities	*23*	6,687	4,976	–	1,790
Deferred income tax liabilities	*17*	421	360	515	568
		7,108	5,336	515	2,358
Current liabilities					
Contract liabilities	*5*	8,211	9,486	18,177	15,910
Trade payables	*24*	15,715	10,413	3,824	4,990
Amount due to a related party	*29*	10,336	–	–	–
Accruals and other payables	*25*	14,368	15,829	17,034	16,503
Current income tax liabilities		3,824	5,129	9,828	7,391
Borrowings	*26*	17,355	40,191	46,803	42,630
Lease liabilities	*23*	4,294	6,567	4,572	3,545
		74,103	87,615	100,238	90,969
Total liabilities		81,211	92,951	100,753	93,327
Total equity and liabilities		119,163	139,498	188,898	172,897

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Note	As at 31 December 2020 HK$'000	As at 30 June 2021 HK$'000
Assets			
Non-current asset			
Investment in a subsidiary		–*	64,884
Current asset			
Prepaid listing expenses		1,447	2,491
Amount due from immediate holding company	*29*	–*	–
		1,447	2,491
Total assets		1,447	67,375
Equity			
Share capital	*21(b)*	–*	78
Share premium	*21(b)*	–	64,806
Reserve	*30*	(5,342)	(15,906)
Total deficit		(5,342)	48,978
Liabilities			
Current liabilities			
Accrued listing expenses		3,003	2,673
Amounts due to subsidiaries	*29*	3,786	15,724
Total liabilities		6,789	18,397
Total equity and liabilities		1,447	67,375

* The amount is less than HK$1,000.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Combined capital *HK$'000*	Capital reserve *HK$'000*	Other reserves *HK$'000* *(Note 22)*	Retained earnings *HK$'000*	Total *HK$'000*
Balance at 1 January 2018	484	30,014	166	(2,816)	27,848
Comprehensive income					
Profit for the year	–	–	–	9,862	9,862
Other comprehensive income					
Currency translation differences	–	–	242	–	242
Total comprehensive income	–	–	242	9,862	10,104
Transactions with owners					
Transfer to statutory reserve	–	–	724	(724)	–
	–	–	724	(724)	–
Balance at 31 December 2018 and 1 January 2019	484	30,014	1,132	6,322	37,952
Comprehensive income					
Profit for the year	–	–	–	24,102	24,102
Other comprehensive income					
Currency translation differences	–	–	(507)	–	(507)
Total comprehensive income	–	–	(507)	24,102	23,595
Transactions with owners					
Transfer to statutory reserve	–	–	2,568	(2,568)	–
Dividends *(Note 12)*	–	–	–	(15,000)	(15,000)
	–	–	2,568	(17,568)	(15,000)

	Combined capital HK$'000	Capital reserve HK$'000	Other reserves HK$'000 (Note 22)	Retained earnings HK$'000	Total HK$'000
Balance at 31 December 2019 and 1 January 2020	484	30,014	3,193	12,856	46,547
Comprehensive income					
Profit for the year	–	–	–	54,548	54,548
Other comprehensive income					
Currency translation differences	–	–	2,050	–	2,050
Total comprehensive income	–	–	2,050	54,548	56,598
Transactions with owners					
Transfer to statutory reserve	–	–	3,836	(3,836)	–
Dividends *(Note 12)*	–	–	–	(15,000)	(15,000)
	–	–	3,836	(18,836)	(15,000)
Balance at 31 December 2020	484	30,014	9,079	48,568	88,145
(Unaudited)					
Balance at 1 January 2020	484	30,014	3,193	12,856	46,547
Comprehensive income					
Profit for the period	–	–	–	14,225	14,225
Other comprehensive income					
Currency translation differences	–	–	(25)	–	(25)
Total comprehensive income	–	–	(25)	14,225	14,200
Transactions with owners					
Transfer to statutory reserve	–	–	939	(939)	–
	–	–	939	(939)	–
Balance at 30 June 2020	484	30,014	4,107	26,142	60,747

	Attributable to the equity holders of the Company						
	Share capital	**Share premium**	**Combined capital**	**Capital reserve**	**Other reserves**	**Retained earnings**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note 22)*	*HK$'000*	*HK$'000*
Balance at 1 January 2021	–	–	484	30,014	9,079	48,568	88,145
Comprehensive income							
Profit for the period	–	–	–	–	–	17,461	17,461
Other comprehensive income							
Currency translation differences	–	–	–	–	1,414	–	1,414
Total other comprehensive income	–	–	–	–	1,414	17,461	18,875
Transactions with owners in their capacity of owners							
Transfer to statutory reserve	–	–	–	–	418	(418)	–
Dividend declared pursuant to the Reorganisation *(Note 1.2(c))*	–	–	–	–	–	(27,450)	(27,450)
Issuance of shares of the Company to give effect of the Reorganisation *(Note 1.2)*	78	64,806	(484)	(64,400)	–	–	–
Total transactions with owners in their capacity of owners	78	64,806	(484)	(64,400)	418	(27,868)	(27,450)
Balance at 30 June 2021	78	64,806	–	(34,386)	10,911	38,161	79,570

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Six months ended 30 June	
		2018	**2019**	**2020**	**2020**	**2021**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Cash flows from operating activities						
Net cash generated from operations	*28(a)*	26,099	30,859	66,045	15,723	26,796
Income tax paid		(8,540)	(10,030)	(13,617)	(6,068)	(11,886)
Net cash generated from operating activities		17,559	20,829	52,428	9,655	14,910
Cash flows from investing activities						
Purchase of intangible assets		(394)	(1,638)	(826)	–	(168)
Additions to property, plant and equipment		(4,733)	(3,148)	(1,335)	(433)	(840)
Proceeds from disposal of property, plant and equipment	*28(b)*	16	–	20	20	–
Repayment from related parties		6,959	–	–	–	–
Advance to a related party		–	(20,480)	(15,528)	(11,948)	(4,357)
Interest received		53	60	43	19	10
Net cash generated from/(used in) investing activities		1,901	(25,206)	(17,626)	(12,342)	(5,355)
Cash flows from financing activities						
Proceeds from borrowings	*28(d)*	–	26,446	38,349	37,069	15,780
Listing expense paid		–	–	(125)	–	(773)
Repayments of borrowings	*28(d)*	(4,037)	(8,929)	(26,102)	(20,210)	(19,030)
Interest paid on borrowings	*28(d)*	(753)	(1,270)	(1,805)	(967)	(721)
Repayments of lease liabilities	*28(d)*	(4,219)	(5,933)	(6,707)	(3,538)	(3,091)
Interest paid on lease liabilities	*28(d)*	(355)	(436)	(344)	(201)	(82)
Advance from related parties		336	–	–	–	–
Repayment to related parties		–	(10,336)	–	–	–
Dividend paid to shareholders		(10,000)	(4,800)	(4,300)	–	–
Dividend paid pursuant to the Reorganisation *(Note 1.2(c))*		–	–	–	–	(27,450)
Net cash (used in)/generated from financing activities		(19,028)	(5,258)	(1,034)	12,153	(35,367)
Net increase/(decrease) in cash and cash equivalents		432	(9,635)	33,768	9,466	(25,812)
Cash and cash equivalents at beginning of the year/period	*28(c)*	32,949	34,838	25,770	25,770	60,836
Effect of foreign exchange rate changes on cash and cash equivalents		1,457	567	1,298	2	256
Cash and cash equivalents at the end of the year/period	*28(c)*	34,838	25,770	60,836	35,238	35,280

II NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

1.1 General information

Semk Holdings International Limited (the "**Company**") was incorporated in the Cayman Islands ("**Cayman**") on 10 December 2020 as an exempted company with limited liability under the Companies Act (Cap. 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of its registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "**Group**") are principally engaged in the provision of licensing services, design consultation services and trading of licensed brand products in Hong Kong and the Mainland China (the "**Listing Business**").

Semk Products (Holdings) Limited is the ultimate holding company of the Company.

Mr. Hui Ha Lam is the ultimate controlling shareholder of the Group.

The Historical Financial Information is presented in Hong Kong dollars (HK$) and all values are rounded to the nearest thousand ("**HK$'000**") unless otherwise stated.

1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the "**Reorganisation**") as described below, the Listing Business was carried out by Semk International Holdings Limited ("**Semk Cayman**") and ENS International Enterprises Ltd ("**ENS International**"), and their subsidiaries (collectively, the "**Operating Companies**").

In preparation for the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Listing**"), the Group underwent the Reorganisation which primarily consists of setting up intermediate holding companies and transferring of the Listing Business to the Group. The Reorganisation is principally involved the following steps:

(a) The Company was incorporated in the Cayman Island as an exempted company with limit liability on 10 December 2020. Upon incorporation, one Share, representing the then entire issued share capital of the Company, was allotted and issued to the initial subscriber and such Share was transferred to ENS International on the same day. Following the transfer, the Company became a wholly-owned subsidiary of ENS International.

(b) On 10 December 2020, Semk (BVI) Limited ("**Semk BVI**") was incorporated in the British Virgin Islands (the "**BVI**") with limited liability. One share was allotted and issued to the Company on 31 December 2020 and SEMK BVI became a wholly-owned subsidiary of the Company.

(c) On 25 January 2021, ENS International repurchased 5,000 shares, representing 10% equity interest of ENS International from OJ VC Limited at a consideration of HK$3,375,000. On the same date, Semk Cayman repurchased 5,625 shares, representing 9% equity interest of Semk Cayman from OJ VC Limited at a consideration of HK$25,425,000 and waiver of dividend payable HK$1,350,000. On the same date, Semk International Enterprise Limited ("**Semk International**") declared dividend of HK$24,075,000 to SEMK Cayman and ENS Holdings Investment Limited ("**ENS Holdings**") declared dividend of HK$3,375,000 to ENS International.

(d) On 4 March 2021, pursuant to a sale and purchase agreement entered into between Semk Global Investment Ltd ("**Semk Global**") and Sky Planner Investments Limited ("**Sky Planner**"), Semk Global transferred 2% shareholding interest in ENS International, comprising 900 shares, in consideration of HK$2,249,000. Upon completion of the transaction, ENS International was owned as to 98% and 2% by Semk Global and Sky Planner, respectively.

(e) On 10 March 2021, ENS International transferred its entire shareholding interest in ENS Holdings to the Company in consideration of the Company allotting and issuing 99 new shares to ENS International, credited as fully paid.

(f) On 11 March 2021, the Company transferred its entire shareholding interest in ENS Holdings in consideration of Semk BVI allotting and issuing 99 new shares to the Company, credited as fully paid. Upon completion of the transaction, ENS Holdings became an indirect wholly-owned subsidiary of the Company.

(g) On 19 March 2021, the Company issued and allotted 577 shares to Semk Cayman in consideration of Semk Cayman transferring its shareholding interest in Semk International to the Company. Upon the completion of the transactions, Semk International became a wholly-owned subsidiary of the Company.

(h) On 26 March 2021, the Company transferred the entire equity interest in Semk BVI to SEMK PRODUCTS LIMITED, as a nominee of Semk International in consideration of Semk International issuing and allotting 2,500 shares to the Company.

(i) On 29 March 2021, the Company has further allotted 1,377 shares and 7,946 shares to ENS International and Semk Cayman respectively. On the same date, ENS International has distributed in species 1,447 shares and 30 shares in the Company to Semk Global and Sky Planner, respectively. On the same date, Semk Cayman has distributed in species 7,399 shares, 937 shares and 187 shares in the Company to Semk Global, Top Plenty Limited and Sky Planner, respectively.

Upon the completion of the Reorganisation steps and as at the date of this report, the Company had direct and indirect interests in the following subsidiaries, all being limited liability companies:

Name of subsidiary	Place and date of incorporation/ establishment and kind of legal entities	Particulars of issued share	Equity interest held as at 31 December 2018	31 December 2019	31 December 2020	30 June 2021	Date of this report	Principal activities and place of operations	*Notes*
Semk International	BVI, 7 August 2015	65,000 Ordinary Shares of USD1 each	100%	100%	100%	100%	100%	Investment holding in Hong Kong	*(i)*
Indirectly held									
Semk Holdings Investment Limited ("**Semk Investment**")	Hong Kong, 18 August 2015	2 Ordinary Shares HK$1 each	100%	100%	100%	100%	100%	Investment holding in Hong Kong	*(ii)*
Semk BVI	BVI, 10 December 2020	100 Ordinary Shares of USD1 each	Nil	Nil	100%	100%	100%	Investment holding in Hong Kong	*(i)*
SEMK PRODUCTS LIMITED ("**Semk Products**")	Hong Kong, 14 November 2001	11,000 Ordinary Shares of HK$1 each	100%	100%	100%	100%	100%	Provision of licensing services in Hong Kong	*(iv)*
Semk Global Marketing Limited ("**Semk Hong Kong**")	Hong Kong, 20 June 2007	100 Ordinary Shares of HK$1 each	100%	100%	100%	100%	100%	Provision of licensing services in Hong Kong	*(iii)*
Semk Licensing (Shenzhen) Limited 德盈商貿(深圳)有限公司* ("**Semk Licensing**")	Shenzhen, the Mainland China, 14 March 2016#	RMB8,000,000	100%	100%	100%	100%	100%	Provision of licensing services in the Mainland China	*(v)*
Semk Trading (Fuzhou) Co. Ltd 德盈卓能商貿(福州)有限公司* ("**Semk Fuzhou**")	Fuzhou, the Mainland China, 14 September 2018@	RMB1,000,000	100%	100%	100%	100%	100%	Investment holding in the Mainland China	*(vi)*
ENS Holdings	Hong Kong, 18 August 2015	1 ordinary shares of HK$1 each	100%	100%	100%	100%	100%	Trading of toys and accessories in Hong Kong	*(ii)*

Name of subsidiary	Place and date of incorporation/ establishment and kind of legal entities	Particulars of issued share	Equity interest held as at 31 December 2018	31 December 2019	31 December 2020	30 June 2021	Date of this report	Principal activities and place of operations	*Notes*
ENS Internet Technology (Shenzhen) Limited 盈思網絡科技(深圳)有限公司* ("**ENS IT**")	Qianhai, the Mainland China, 10 October 2015^	HK$1,500,000	100%	100%	100%	100%	100%	Trading of apparels, toys and accessories on e-commerce platform in the Mainland China	*(v)*
ENS Business Development Limited ("**ENS Business**")	Hong Kong, 12 August 2016	1 ordinary shares of HK$1 each	100%	100%	100%	100%	100%	Trading of toys and accessories in Hong Kong	*(ii)*
ENS Retailing (Shenzhen) Limited 深圳市盈志商貿有限公司* ("**ENS Retailing**")	Shenzhen, the Mainland China. 23 December 2016@	RMB100,000	100%	100%	100%	100%	100%	Trading of toys and accessories in the Mainland China	*(v)*
ENS Promotion (Shenzhen) Limited 深圳市盈際商貿有限公司* ("**ENS Promotion**")	Shenzhen, the Mainland China, 17 February 2017@	RMB1,000,000	100%	100%	100%	100%	100%	Trading of toys and accessories on e-commerce platform in the Mainland China	*(v)*
Shenzhen ENS Trend Network Technology Limited 深圳市盈思潮流網絡科技有限公司* ("**ENS Trend**")	Shenzhen, the Mainland China, 21 May 2018@	RMB1,000,000	100%	100%	100%	100%	100%	Investment holding in the Mainland China	*(vi)*
Shenzhen ENS Fashion Network Technology Limited 深圳市盈思風尚網絡科技有限公司* ("**ENS Fashion**")	Shenzhen, the Mainland China, 22 May 2018@	RMB1,000,000	100%	100%	100%	100%	100%	Investment holding in the Mainland China	*(vi)*
ENS Lishui Network Limited 麗水盈思網絡有限公司* ("**ENS Lishui**")	Lishui, the Mainland China, 31 May 2021	RMB500,000	Nil	Nil	Nil	100%	100%	Trading of apparels, toys and accessories on e-commerce platform in the Mainland China	*(i)*
ENS Hangzhou Network Limited 杭州盈意網絡有限公司* ("**ENS Hangzhou**")	Hangzhou, the Mainland China, 4 August 2021	RMB500,000	Nil	Nil	Nil	Nil	100%	Inactive	*(i)*

* English translation is for identification purpose

\# Registered as wholly foreign-owned enterprises under the PRC law

@ Registered as wholly-owned enterprise under the PRC Law

^ Registered as wholly-owned enterprises of Taiwan, Hong Kong or Macau corporate body under the PRC Law

Notes:

(i) No audited financial statements were issued for these companies as there are no statutory requirements to issue statutory financial statements.

(ii) The statutory financial statements of these companies for the years ended 31 December 2018, 2019 and 2020 were prepared in accordance with Hong Kong Financial Reporting Standards and audited by Profit Accounting.

(iii) The statutory financial statements of these companies for the years ended 31 December 2018 and 2019 were prepared in accordance with Hong Kong Financial Reporting Standards and audited by PricewaterhouseCoopers. The statutory financial statements for the year ended 31 December 2020 have not yet been issued.

(iv) The statutory financial statements of these companies for the years ended 31 December 2018, 2019 and 2020 were prepared in accordance with Hong Kong Financial Reporting Standards and audited by PricewaterhouseCoopers.

(v) The statutory financial statements of this company for the years ended 31 December 2018, 2019 and 2020 were audited by 深圳市永銘會計師事務所(普通合夥).

(vi) No audited financial statements were issued for the years ended 31 December 2018, 2019 and 2020 as these companies are inactive.

1.3 Basis of presentation

The companies now comprising the Group, engaging in the character licensing business and e-commerce and other business, were under common control of Mr. Hui Ha Lam, the controlling shareholder, immediately before and after the Reorganisation. Accordingly, the Reorganisation is regarded as a business combination under common control, and for the purpose of this report, the Historical Financial Information has been prepared on a consolidated basis.

The Historical Financial Information has been prepared by including the historical financial information of the companies engaged in the provision of licensing, design consultation services and trading of licensed brand products, under the common control of Mr. Hui Ha Lam immediately before and after the Reorganisation and now comprising the Group as if the current group structure had been in existence throughout the periods presented, or since the date when the combining companies first came under the control of Mr. Hui Ha Lam, whichever is a shorter period.

The net assets of the combining companies were combined using the existing book values from Mr. Hui Ha Lam's perspective. No amount is recognised in consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of business combination under common control, to the extent of the continuation of the controlling party's interest.

Inter-company transactions, balances and unrealised gains/(losses) on transactions between group companies are eliminated upon consolidation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The Historical Financial Information has been prepared under the historical cost convention.

The preparation of the Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

The following new standards and amendments to existing standards have been issued but are not yet effective and have not been early adopted:

		Effective for annual periods beginning on or after
Amendments to HKFRS 16	Covid-19-Related Rent Concession Beyond 30 June 2021	1 April 2021
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations	1 January 2022
Annual Improvements to HKFRSs 2018–2020 cycle	Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41	1 January 2022
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
Revised Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 10 and HKAS 28 amendments	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group is in the process of assessing the impact of the new standards, amendments to standards and conceptual framework on its results of operations and financial position. The Group expects to adopt the relevant new standards, amendments to standards and conceptual framework when they become effective.

2.2 Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Group.

When the Group ceases to consolidate for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers ("**CODM**"). The CODM, who are responsible for allocating resources and assessing performance of the operating segments, has been identified as directors that make strategic decisions.

2.5 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in HK$, which is the Company's functional currency and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that are related to borrowings are presented in the comprehensive income within "finance income" or "finance cost". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within "other (losses)/gains, net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statements of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each statements of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting currency translation differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

2.6 Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged in the profit or loss during the financial period in which they are incurred.

Depreciation on plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

Leasehold improvements	Lease terms or 5 years, whichever is shorter
Motor vehicles	5 years
Computer equipment	2 – 3 years
Office equipment	2 – 3 years
Mold	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "other (losses)/gains, net" in the consolidated statements of comprehensive income.

2.7 Intangible asset

Trademark

Trademark that has a finite useful life are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives of 10 years, based on validity of trademarks, expected economic benefits and useful life estimated by market comparable.

2.8 Impairment of non-financial assets

Property, plant and equipment, intangible assets and right-of-use assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.9 Financial assets

(a) Classification

The Group classifies its financial assets to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other (losses)/gains, net" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

(d) Credit loss allowance

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(ii) details how the Group determines whether there has been significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.11 Inventories

Inventories, comprising licensed brand products, are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out ("**FIFO**") method. The cost of finished goods comprises the cost of purchased inventory after deducting rebates or discounts. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If no, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

2.13 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

2.14 Combined capital/Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.17 Borrowings costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

2.18 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the country where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.20 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts and returns. Revenue is recognised when control of goods or services is transferred to the customer.

Depending on the terms of the contract and the laws that apply to the contract, service may provide over time or at a point in time. Service is provided over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer; or
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If service transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains the service.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Group to the customer; or
- the Group's efforts or inputs to the satisfaction of the performance obligation.

When determining the transaction price to be allocated for different performance obligations, the Group first determines the service fees that the Group entitles in the contract period and adjusts the transaction price for variable considerations. The Group includes in the transaction price some or all of an amount of variable considerations only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

If a contract involves multiple services, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

The following is description of the accounting policy for the principal revenue stream of the Group:

(a) Revenue from provision of licensing services

Revenue from provision of licensing services relates to granting licensees the right to use trademarks created, developed and registered by the Group in different categories of licensees' products and/or services, including license for use on (i) consumer products; (ii) promotional and marketing gifts (iii) entertainment, dining and leisure destinations and; (iv) online and offline media. The revenue from the provision of licensing services is recognised over the licensing period.

(b) Revenue from provision of design consultation services

Revenue from provision of design consultation services relates to provision of design consultation and brand management services to third parties and is recognised over time when the services are provided to the customer.

(c) Sales of licensed brand products

Revenue from the sales of licensed brand products primarily comprised of sales from self-operated retail platform and sales from wholesale market. Revenue is recognised when control of the products has transferred, being when the products are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been delivered to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Most of the Group's sales of licensed brand products are made to customers through online platform with the remaining portion of sales being made to wholesalers, for which revenue is recognised when control of the goods is transferred, being at the point the customer receives the goods at the agreed location.

Revenue from sales of licensed brand products is recognised based on the price specified in the contract, net of discounts, returns and value added taxes. Accumulative experience is used to estimate returns at the time of sale at a portfolio level (expected value method), and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

2.22 Other income

(i) Income from sample sales

Income from sample sales relates to selling of design prototypes to the customers. Such income is recognised at the point that the control of the deliverables has been transferred to the customer, being when the customer has accepted the deliverables and there is no unfulfilled obligation that could affect the customer's acceptance of the deliverables.

(ii) Lease income – operating lease

Rental income from operating leases of operating equipments where the Group is a lessor is recognised in "other income" on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statement of financial position based on their nature.

(iii) Management fee income

The Group provides management services to related companies. Income is recognised over the contract period when the relevant services are provided by the Group and the related companies simultaneously receive and consume the benefits provided by the Group's performance.

2.23 Contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assume performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations give rise to a net asset or net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining conditional rights to consideration exceeds the satisfied performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if consideration received (or an amount of consideration is due) from the customer exceeds the measure of the remaining unsatisfied performance obligations.

2.24 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) Pension obligations

The Group operates a defined contribution plan in Hong Kong and pays contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Full time employees of the Mainland China entity participate in a government mandated multiemployer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labour regulations require the entity to accrue for these benefits based on certain percentages of the employees' salaries. Management believes full time employees who have passed the probation period are entitled to such benefits.

(iii) Bonus plan

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholder. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.25 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the consolidated statements of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of buildings are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Rent concession as a direct consequence of the COVID-19 pandemic are recognised in the same way as they would if they were not lease modification and presented in "other income" in the consolidated statement of comprehensive income only if all of the following conditions are met:

a. The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b. Any reduction in lease payments affects only payments due on or before 30 June 2022.

c. The is no substantive change to other terms and conditions of the lease.

2.26 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

– the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and

– by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

– the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and

– the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

2.28 Interest income

Interest income is recognised using the effective interest method.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Management regularly manages the financial risks of the Group. Because of the simplicity of the financial structure and the current operations of the Group, no hedging activities are undertaken by management.

(i) Market risk

(a) Foreign exchange risk

The Group operates principally in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("**USD**") and Renminbi ("**RMB**"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The Group does not hold or issue any derivative financial instruments to manage its exposure to foreign currency risk.

Majority of the revenue generated, and cost incurred form the local operations are primarily transacted in local functional currency and therefore foreign exchange transactional risks are minimal.

Management manages its foreign exchange risks by performing regular review and monitoring its foreign exchange exposure. Management is of the view that the Group's exposure to US$ is minimal since HK$ is pegged to the US$.

As at 31 December 2018, 2019 and 2020 and 30 June 2021, if HK$ had weakened/strengthened by 5% against RMB, with all other variables held constant, post-tax profit for the year would have been HK$1,788,000, HK$2,096,000, HK$3,033,000 and HK$3,107,000 lower/higher, respectively, mainly as a result of foreign exchange losses/gains on translation of foreign currency-denominated non-derivative financial assets and liabilities.

(b) Fair value and cash flow interest rate risk

As at 31 December 2018, 2019 and 2020 and 30 June 2021, except for bank borrowings of HK$17,355,000, HK$40,191,000, HK$46,803,000 and HK$42,630,000, the Group is substantially independent from changes in market interest rates and the Group has no other significant interest bearing assets and liabilities.

As at 31 December 2018, 2019 and 2020 and 30 June 2021, if interest rates on borrowings had been 100 basis points higher or lower with all other variables held constant, the impact on the Group's profit for the year would have been approximately HK$131,000, HK$306,000, HK$429,000 and HK$396,000 lower or higher.

(ii) Credit risk

The Group is exposed to credit risk in relation to its trade receivables, contract assets, deposits and other receivables, amounts due from related companies and cash and cash equivalents. The Group's maximum exposure to credit risk is the carrying amounts of these financial assets.

The credit risk on cash and cash equivalents are limited because cash are placed in banks with sound credit ratings.

The Group is exposed to concentration of credit risk as at 31 December 2018, 2019 and 2020 and 30 June 2021 on trade receivables which amounted to approximately HK$991,000, HK$9,086,000, HK$24,764,000 and HK$16,423,000 and accounted for 12%, 37%, 54% and 41% of the total trade receivables balances. The major trade receivables counterparties of the Group are reputable organisations. Management considers that the credit risk is limited in this regard.

It is the Group's policy that all customers who wish to have credit terms are subject to credit verification procedures. The management has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews regularly the recoverable amount of the customers' profiles and subsequent settlement to ensure that adequate impairment is made for the irrecoverable amount.

Loss allowance for trade receivables and contract assets

The Group applied the simplified approach in HKFRS 9 to measuring expected credit loss which uses a lifetime expected credit loss for trade receivables and contract assets. Except for trade receivables and contract assets with known insolvencies or significant outstanding balances which are assessed individually, the Group determines the expected credit loss on the remaining balances by using a provision matrix grouped by common risk characteristic.

Measurement of expected credit loss

The expected loss rates are based on the payment profiles of sales over a period of 36 months and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The credit loss allowance as at 31 December 2018, 2019 and 2020 and 30 June 2021 was determined as follows for trade receivables and contract assets:

As at 31 December 2018	**Not yet past due and past due up to 30 days**	**Past due 31-60 days**	**Past due 61-90 days**	**Past due 91 days–120 days**	**Past due 121 days to 180 days**	**Past due over 180 days**	**Total**
Character licensing							
Expected loss rate	3.0%	10.8%	19.2%	24.8%	35.3%	59.2%	
Gross carrying amount of trade receivables and contract assets *(HK$'000)*	20,276	–	–	–	560	2,402	23,238
Credit loss allowance *(HK$'000)* *(Note 5(c) and 18)*	608	–	–	–	198	1,422	2,228
E-commerce and other							
Expected loss rate	0.1%	0.8%	1.5%	6.0%	36.8%	100.0%	
Gross carrying amount of trade receivables and contract assets *(HK$'000)*	3,744	84	53	6	82	587	4,556
Credit loss allowance *(HK$'000)* *(Note 5(c) and 18)*	3	1	1	–	30	587	622

As at 31 December 2019	Not yet past due and past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91 days–120 days	Past due 121 days to 180 days	Past due over 180 days	Total
Character licensing							
Expected loss rate	3.0%	8.9%	20.8%	24.0%	46.6%	100.0%	
Gross carrying amount of trade receivables and contract assets *(HK$'000)*	25,473	2,296	881	2,189	1,250	1,932	34,021
Credit loss allowance *(HK$'000) (Note 5(c) and 18)*	768	205	183	526	583	1,932	4,197
E-commerce and other							
Expected loss rate	0.1%	4.4%	7.1%	8.8%	20.3%	100.0%	
Gross carrying amount of trade receivables and contract assets *(HK$'000)*	5,774	101	62	108	110	732	6,887
Credit loss allowance *(HK$'000) (Note 5(c) and 18)*	8	4	4	9	22	732	779

As at 31 December 2020	Not yet past due and past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91 days–120 days	Past due 121 days to 180 days	Past due over 180 days	Total
Character licensing							
Expected loss rate	4.0%	10.3%	18.4%	23.0%	71.3%	100.0%	
Gross carrying amount of trade receivables and contract assets *(HK$'000)*	51,759	1,740	525	921	1,296	4,371	60,612
Credit loss allowance *(HK$'000) (Note 5(c) and 18)*	2,068	179	97	212	925	4,371	7,852
E-commerce and other							
Expected loss rate	0.2%	5.4%	6.3%	10.4%	21.2%	100.0%	
Gross carrying amount of trade receivables and contract assets *(HK$'000)*	6,526	203	9	14	109	702	7,563
Credit loss allowance *(HK$'000) (Note 5(c) and 18)*	15	11	1	1	23	702	753

As at 30 June 2021	Not yet past due and past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-120 days	Past due 121-180 days	Past due over 180 days	Total
Character licensing							
Expected loss rate	3.6%	14.4%	23.7%	28.1%	42.6%	100.0%	
Gross carrying amount of trade receivables and contract assets *(HK$'000)*	42,127	669	773	423	287	3,951	48,230
Credit loss allowance *(HK$'000)* *(Note 5(c) and 18)*	1,521	96	184	119	122	3,951	5,993
E-commerce and other							
Expected loss rate	0.2%	5.4%	6.3%	10.4%	21.2%	100.0%	
Gross carrying amount of trade receivables and contract assets *(HK$'000)*	7,819	16	42	1	3	738	8,619
Credit loss allowance *(HK$'000)* *(Note 5(c) and 18)*	16	1	3	–	1	738	759

Other financial assets at amortised cost

The Group adopts general approach for expected credit losses of deposits and other receivables and amounts due from related parties. The Group considers these financial assets have not significantly increased in credit risk from initial recognition. Thus, these financial assets are classified in stage one and only consider 12-month expected credit losses. Considering the history of default, financial position of these debtors and forward looking factor, the expected credit loss is immaterial.

(iii) Liquidity risk

The Group measures and monitors its liquidity through the maintenance of prudent ratio regarding the liquidity structure of the overall assets, liabilities, loans and commitments of the Group. The Group also maintains a prudent level of liquid assets and committed banking facilities to ensure the availability of sufficient cash flows to meet any unexpected and material cash requirements in the ordinary course of business.

The following tables show the remaining contractual maturities at the end of the reporting period of the Company's financial liabilities based on contractual undiscounted cash flows and the earliest date the Company can be required to pay. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	On demand or within 1 year *HK$'000*	Between 1 and 2 years *HK$'000*	Between 2 and 5 years *HK$'000*	Total *HK$'000*
As at 31 December 2018				
Trade payables	15,715	–	–	15,715
Other payables	9,285	–	–	9,285
Borrowings	17,355	–	–	17,355
Lease liabilities	4,637	4,271	2,659	11,567
Amount due to a related party	10,336	–	–	10,336
	57,328	4,271	2,659	64,258
As at 31 December 2019				
Trade payables	10,413	–	–	10,413
Other payables	9,183	–	–	9,183
Borrowings	40,191	–	–	40,191
Lease liabilities	7,201	4,457	–	11,658
	66,988	4,457	–	71,445
As at 31 December 2020				
Trade payables	3,824	–	–	3,824
Other payables	9,646	–	–	9,646
Borrowings	46,803	–	–	46,803
Lease liabilities	4,667	–	–	4,667
	64,940	–	–	64,940
As at 30 June 2021				
Trade payables	4,990	–	–	4,990
Other payables	8,378	–	–	8,378
Borrowings	42,630	–	–	42,630
Lease liabilities	3,677	923	923	5,523
	59,675	923	923	61,521

The table below summarises the maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings				
As at 31 December 2018	8,873	8,402	880	18,155
As at 31 December 2019	19,796	11,229	12,299	43,324
As at 31 December 2020	12,134	8,198	30,075	50,407
As at 30 June 2021	11,418	8,287	25,898	45,603

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may return capital to shareholder, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated statement of financial position, plus net debt.

As at 31 December 2018 and 2020, the amount of cash and cash equivalents exceeded that of total borrowings, the Group was at a net cash position. Thus, the gearing ratio is not applicable.

The gearing ratios at 31 December 2018, 2019 and 2020 and 30 June 2021 was as follows:

	2018	2019	2020	As at 30 June 2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Lease liabilities	10,981	11,543	4,572	5,335
Borrowings	17,355	40,191	46,803	42,630
Amount due to a related party	10,336	–	–	–
Less: Cash and cash equivalents	(39,090)	(35,341)	(64,772)	(38,293)
Net (cash)/debt	(418)	16,393	(13,397)	9,672
Total equity	37,952	46,547	88,145	79,570
Total capital	37,534	62,940	74,748	89,242
Gearing ratio	N/A	26%	N/A	11%

3.3 Fair value estimation

The carrying values of investment in life insurance contract and accruals, provision and other payables are a reasonable approximation of their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Revenue recognition

Revenue from provision of licensing services is recognised over time when the Group grants licensees the right to use the trademarks created, developed and registered by the Group. Revenue from provision of design consultation services is recognised over the period that the services are provided.

For contracts that include multiple performance obligations, the transaction price is allocated to the performance obligations on a relative stand-alone selling price basis. Management estimates the stand-alone selling price at contract inception based on observable prices of the services rendered in similar circumstances to others.

(b) Impairment of trade receivables and contract assets

Provision for expected credit loss is made when the Group is not expected to collect all amounts due. The provision is determined by grouping together debtors with similar risk characteristics and collectively, or individually assessing them for likelihood of recovery. The provision matrix is determined based on the Group's historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. In making the judgement, management considers reasonable and supportive forwarding-looking information available such as actual or expected significant changes in the operating results of customers and actual or expected significant adverse changes in business and customers' financial position. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed by the Group's management.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling prices in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in economic conditions in places where the Group operates and changes in customer taste and competitor actions in response to changes in market conditions. Management reassesses these estimates at each statement of financial position date.

(d) Income taxes

The Group is subject to income taxes in Hong Kong and the Mainland China. Significant judgement is required in determining the provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been changed.

5 REVENUE AND SEGMENT INFORMATION

(a) Revenue

Revenue, which is also the Group's turnover, represents amounts received and receivable from the provision of licensing services, design consultation services and sales of licensed brand products in Hong Kong and Mainland China. An analysis of revenue is as follows:

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Revenue					
Recognised over time					
Provision of licensing services	43,680	63,357	82,545	26,579	47,057
Provision of design consultation services	20,147	18,273	15,494	4,704	11,915
	63,827	81,630	98,039	31,283	58,972
Recognised at a point in time					
Sales of licensed brand products	137,037	161,416	135,476	61,593	64,801
Total revenue	200,864	243,046	233,515	92,876	123,773

There is no single external customer contributed more than 10% to the Group's revenue for the years ended 31 December 2018 and 2019. For the year ended 31 December 2020, there were 2 customers which individually contributed 10% or more of the Group's total revenue. For the six months ended 30 June 2020 and 2021, there was 1 and 1 customer, respectively, which individually contributed 10% or more of the Group's total revenue. The revenue contributed from the customers is as follow:

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Customer A	N/A	N/A	28,374	N/A	N/A
Customer B	N/A	N/A	24,211	10,506	14,155

N/A: The revenue of the particular customer for the particular year is less than 10% of the Group's revenue for that year.

(b) Segment information

The directors have been identified as the CODM of the Group who review the Group's internal reporting in order to assess performance and allocate resources. The directors regard the Group's business as two reporting segments based on respective revenue and profit after tax before unallocated expenses for the purposes of allocating resources and assessing performance. These reports are prepared on the same basis as these consolidated financial statements. Information relating to segment assets and liabilities are not disclosed as such information not regularly reported to the CODM.

The CODM identifies two reportable segments considering the nature of products and services, namely Character licensing and e-commerce and other. The Character licensing business is mainly engaged in the provision of licensing services and design consultation services, whilst e-commerce and other business is mainly engaged in the trading of licensed brand products through online platforms and offline channels.

	Character licensing	**E-commerce and other**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
For the year ended 31 December 2018			
Gross revenue	70,182	137,037	207,219
Inter-segment revenue	(6,355)	–	(6,355)
Revenue from external sales	63,827	137,037	200,864
Profit/(loss) after income tax/ segment results	15,461	(5,599)	9,862
For the year ended 31 December 2019			
Gross revenue	88,574	161,416	249,990
Inter-segment revenue	(6,944)	–	(6,944)
Revenue from external customers	81,630	161,416	243,046
Profit after income tax/segment results	21,080	3,022	24,102

	Character licensing *HK$'000*	E-commerce and other *HK$'000*	Total *HK$'000*
For the year ended 31 December 2020			
Gross revenue	103,148	135,476	238,624
Inter-segment revenue	(5,109)	–	(5,109)
Revenue from external sales	98,039	135,476	233,515
Segment results	47,919	11,917	59,836
Unallocated:			
Listing expense			(5,288)
Profit after income tax			54,548
For the six months ended 30 June 2020 (Unaudited)			
Gross revenue	33,696	61,593	95,289
Inter-segment revenue	(2,413)	–	(2,413)
Revenue from external sales	31,283	61,593	92,876
Profit after income tax/segment results	7,354	6,871	14,225
For the six months ended 30 June 2021			
Gross revenue	61,154	64,801	125,955
Inter-segment revenue	(2,182)	–	(2,182)
Revenue from external sales	58,972	64,801	123,773
Segment results	25,261	345	25,606
Unallocated:			
Listing expense			(8,145)
Profit after income tax			17,461

The amount of revenue by customers' location is shown in the following table:

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Mainland China	182,306	224,237	227,184	89,554	119,214
Hong Kong	12,965	15,278	4,273	2,110	3,746
Southeast Asia and Taiwan	3,707	2,034	1,741	1,000	755
South Korea	1,372	1,200	65	65	–
Others	514	297	252	147	58
	200,864	243,046	233,515	92,876	123,773

The total amount of non-current assets excluding deferred tax assets located in the Mainland China as at 31 December 2018, 2019 and 2020 and 30 June 2021 are HK$10,732,000, HK$11,279,000, HK$6,213,000 and HK$7,205,000, respectively, and the total amount of non-current assets excluding deferred tax assets located in Hong Kong as at 31 December 2018, 2019 and 2020 and 30 June 2021 are HK$9,977,000, HK$12,790,000, HK$8,828,000 and HK$9,361,000, respectively.

(c) Assets and liabilities related to contracts with customer

The Group has recognised the following assets and liabilities related to contracts with customer:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contract assets	19,599	16,061	22,410	16,871
Less: loss allowance of contract assets	(559)	(320)	(1,115)	(380)
	19,040	15,741	21,295	16,491
Contract liabilities	8,211	9,486	18,177	15,910

Movement on the provision for impairment of contract assets is as follows:

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Beginning of the year	360	559	320	320	1,115
Provision/(reversal) for loss allowance of contract assets	222	(231)	732	–	(746)
Currency translation differences	(23)	(8)	63	–	11
End of the year	559	320	1,115	320	380

(i) Significant changes in contract liabilities

The changes in contract liabilities balance is mainly a result of timing differences between fees billed or collected from customers as compared to the revenue recognised during the year.

Contract liabilities for the Group mainly arise from the advance payment made by customers while the underlying services have yet to be provided.

(ii) Revenue recognised in relation to contract liabilities:

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Revenue recognised in current year that was included in the contract liabilities balance at the beginning of the year	6,826	8,211	9,486	5,753	7,728

(iii) Unfulfilled performance obligation

Aggregate amount of the transaction price allocated to contracts that are partially or fully unfulfilled as at the end of the year and are expected to be fulfilled in the following time bands. The amounts disclosed below do not include variable consideration.

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	22,383	27,236	35,143	51,336
1–2 years	13,611	15,639	22,982	26,512
2–3 years	8,373	10,530	12,213	12,405
3–4 years	6,114	6,597	5,233	1,232
After 4 years	4,437	4,274	2,206	2,119
	54,918	64,276	77,777	93,604

(iv) Assets recognised from costs to fulfil a contract

In addition to the contract balances disclosed above, the Group has also recognised an asset in relation to costs to fulfil a long-term contract. This is presented within contract costs in the consolidated statement of financial position (Note 19).

6 OTHER INCOME AND OTHER (LOSSES)/GAINS, NET

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Other income					
Sample sales	1,120	1,924	3,010	961	2,668
Management fee income *(Note 29(a))*	569	676	953	469	1,018
Government subsidies *(Note)*	244	1,333	3,276	1,715	781
Compensation received from customers	244	126	426	47	38
Rental income	–	1,411	–	–	–
Rental concession	–	–	1,038	365	–
Sundry income	860	677	36	26	62
	3,037	6,147	8,739	3,582	4,567
Other (losses)/gains, net					
Net foreign exchange (losses)/gains	(1,261)	(495)	3,407	(677)	341
Changes in surrender value of investment in life insurance contract	66	58	(262)	–	20
	(1,195)	(437)	3,145	(677)	361

Note: Government subsidies comprise grant received from various local governments in Mainland China and Hong Kong. There are no unfulfilled conditions or contingencies in relation to the grants.

7 EMPLOYEE BENEFIT EXPENSES

(a) Employee benefit expenses, including benefits and interests of directors

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries and allowances	38,174	45,349	39,091	18,320	26,818
Social security costs	3,089	3,767	1,657	822	2,130
Pension costs – defined contribution plan	654	708	621	302	384
Other employee benefits	942	1,368	971	456	528
	42,859	51,192	42,340	19,900	29,860

Note:

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("**the MPF Scheme**"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Group (the employer) and its employees make monthly contributions to the scheme generally at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The monthly contributions of each of the employer and the employee are subject to a maximum contribution of HK$1,500 per month (for period after 1 June 2014) and thereafter contributions are voluntary. The Group has no further obligation for post-retirement benefits beyond the contributions.

As stipulated by rules and regulations in the Mainland China, the Group contributes to state-sponsored retirement plans for employees of its subsidiaries established the Mainland China.

No forfeited contributions were utilised during the Track Record Period and none was left available as at 31 December 2018, 2019 and 2020 and 30 June 2021 to reduce future contributions. Contributions totaling HK$56,000, HK$71,000, HK$40,000 and HK$61,000 were payable to the fund as at 31 December 2018, 2019 and 2020 and 30 June 2021.

(b) Benefits and interests of directors

The remuneration of every director of the Company (in their role as senior management and employee before their appointment as directors respectively) for the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021 are set out below:

Name of director	Fees	Salaries, allowances and benefits in kind	Employer's contribution to pension scheme	Bonuses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2018					
Executive director					
Mr. Hui Ha Lam	–	1,282	18	198	1,498
Mr. Kwok Chun Kit	–	1,198	18	186	1,402
Mr. Cheung Chin Yiu	–	805	18	231	1,054
Mr. Tse Tsz Leong	–	1,102	18	88	1,208
	–	4,387	72	703	5,162
For the year ended 31 December 2019					
Executive director					
Mr. Hui Ha Lam	–	1,366	18	214	1,598
Mr. Kwok Chun Kit	–	1,283	18	200	1,501
Mr. Cheung Chin Yiu	–	809	18	240	1,067
Mr. Tse Tsz Leong	–	1,120	18	184	1,322
	–	4,578	72	838	5,488

Name of director	Fees	Salaries, allowances and benefits in kind	Employer's contribution to pension scheme	Bonuses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2020					
Executive director					
Mr. Hui Ha Lam	–	1,183	18	228	1,429
Mr. Kwok Chun Kit	–	1,100	18	212	1,330
Mr. Cheung Chin Yiu	–	678	18	455	1,151
Mr. Tse Tsz Leong	–	970	18	140	1,128
	–	3,931	72	1,035	5,038
For the six months ended 30 June 2020 (Unaudited)					
Executive director					
Mr. Hui Ha Lam	–	589	9	114	712
Mr. Kwok Chun Kit	–	548	9	106	663
Mr. Cheung Chin Yiu	–	338	9	228	575
Mr. Tse Tsz Leong	–	483	9	70	562
	–	1,958	36	518	2,512
For the six months ended 30 June 2021					
Executive director					
Mr. Hui Ha Lam	–	690	9	114	813
Mr. Kwok Chun Kit	–	606	9	106	721
Mr. Cheung Chin Yiu	–	395	9	30	434
Mr. Tse Tsz Leong	–	626	9	187	822
	–	2,317	36	437	2,790

(i) Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries undertaking during the Track Record Period.

(ii) Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the Track Record Period.

(iii) Consideration provided to third parties for making available directors' services

During the Track Record Period, the Group did not pay consideration to any third parties for making available directors' services.

(iv) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

As at 31 December 2018, 2019 and 2020 and 30 June 2021 there are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors.

(v) Directors' material interests in transactions, arrangements or contracts

The remuneration shown above represents remuneration received from the Group by these directors in their capacity as management to the Group during the Track Record Period.

There was no arrangement under which a director waived or agreed to waive any emoluments during the Track Record Period.

There were no significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of each of the year ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021 or at any time during the Track Record Period.

Mr. Hui Ha Lam, Mr. Kwok Chun Kit, Mr. Cheung Chin Yiu and Mr. Tse Tsz Leong were appointed as the Company's executive directors ("**EDs**") on 28 April 2021. Ms. Leung Ping Fun, Anita, Mr. Sung Chi Keung and Dr. Chan Kai Yue Jason, *MH, JP* were appointed as the Company's independent non-executive directors ("**INEDs**") on 20 December 2021, and Mr. Wong Yin Shun, Vincent and Mr. Chen Hongjiang were appointed as the Company's non-executive directors ("**NEDs**") on 28 April 2021 and 22 October 2021, respectively. During the Track Record Period, the EDs, INEDs and NEDs have not been appointed nor received any remuneration in the capacity of EDs, INEDs and NEDs.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 4, 4, 4, 4 and 4 directors for the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, respectively, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 1, 1, 1, 1 and 1 individual during the Track Record Period are as follows:

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries and allowances	505	762	641	311	388
Bonuses	376	240	350	175	–
Pension costs – defined contribution plan	154	18	18	9	9
	1,035	1,020	1,009	495	397

The emoluments of above individual are within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
				(Unaudited)	
Emoluments band					
HK$0 – HK$499,999	–	–	–	1	1
HK$1,000,000 – HK$1,499,999	1	1	1	–	–

8 OTHER EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Travelling and transportation	10,311	12,043	9,871	4,617	5,514
Office expenses	2,799	3,695	3,773	1,293	2,308
Legal and professional fee *(Note)*	3,167	5,392	5,356	2,124	5,923
Agency fee	1,942	1,185	832	477	911
Rental expenses – short term leases *(Note 14(i))*	1,453	1,374	897	295	871
Repair and maintenance	912	440	285	45	38
Insurance expense	483	525	458	221	204
Building management fee	284	355	408	187	226
Licensing fee	52	170	1,140	440	608
Office co-sharing expense *(Note 29(a))*	29	29	29	15	15
Auditor's remuneration – audit service	251	269	240	136	120
Others	2,594	1,945	2,005	1,307	1,258
	24,277	27,422	25,294	11,157	17,997

Note: During the years ended 31 December 2019 and 2020 and six months ended 30 June 2020 and 2021, professional fee for legal action involving OJ VC Limited, former shareholder of the Company amounted to HK$664,000, HK$2,191,000, HK$800,000 and HK$2,330,000, respectively.

9 FINANCE COSTS, NET

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Finance income					
Interest income from bank deposits	(53)	(60)	(43)	(19)	(10)
Finance costs					
Finance charges on lease liabilities *(Note 14(i))*	355	436	344	201	82
Bank charges	37	84	86	57	63
Interest expenses	716	1,186	1,719	910	658
	1,108	1,706	2,149	1,168	803
Finance costs, net	1,055	1,646	2,106	1,149	793

10 INCOME TAX EXPENSE

The amount of income tax expense charged to the consolidated statements of comprehensive income represents:

	Year ended 31 December			Six months ended	
	2018	2019	2020	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Current income tax:					
– Hong Kong profits tax	579	428	1,538	1,497	828
– Mainland China corporate income tax	6,254	7,523	12,866	2,629	6,359
– Under/(over) provision	36	(5)	–	–	–
– Withholding tax	2,439	3,408	3,306	263	1,860
	9,308	11,354	17,710	4,389	9,047
Deferred income tax *(Note 17)*	(1,320)	684	(330)	(486)	100
	7,988	12,038	17,380	3,903	9,147

Hong Kong profits tax has been provided at the rate of 16.5% for the year ended 31 December 2018.

In accordance with the two-tiered profits tax regime effective from 1 January 2018, Hong Kong profits tax has calculated at 8.25% on the first HK$2,000,000 for one of the subsidiaries in Hong Kong, and 16.5% on the remaining balance of the estimated assessable profits for the Track Record Period.

The statutory income tax rate applicable to entities in the Mainland China is 25% during the Track Record Period.

The Group is also subject to withholding tax at the rate of 7% and 10%, respectively, on management fee and design fee charged from the Group's Hong Kong subsidiaries to the Group's Mainland China subsidiaries.

No overseas profits tax has been calculated as the Company incorporated in the BVI is exempted from tax.

As at 31 December 2018, 2019 and 2020 and 30 June 2021, there were no deferred income tax provided in relation to the unremitted earnings as the Group's management has approved that the Mainland China subsidiaries have no intention and are not probable to declare dividend in the foreseeable future and the Group is able to control the timing of the reversal of the temporary differences and it is decided that the unremitted earnings will not be remitted in the foreseeable future.

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate applicable to the respective jurisdiction as follows:

	Year ended 31 December			**Six months ended 30 June**	
	2018	**2019**	**2020**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit before income tax	17,850	36,140	71,928	18,128	26,608
Tax charge at 16.5%	2,945	5,963	11,868	2,991	4,390
Effect of different taxation rates in other countries	1,192	2,490	4,300	935	1,986
Tax effect under two tier profits tax rates regime	(165)	(165)	(165)	(165)	(165)
Income not subjected to tax	(12)	(11)	(594)	–	(4)
Non-deductible expenses for tax purposes	2,062	2,516	1,681	437	2,548
Utilisation of previously unrecognised tax losses	–	(92)	(302)	(646)	–
Tax losses not recognised	880	612	291	106	402
Withholding tax	2,439	3,407	3,306	263	1,860
Tax effect of withholding tax	(1,369)	(2,657)	(2,995)	(8)	(1,860)
Tax concession	(20)	(20)	(10)	(10)	(10)
Under/(over) provision	36	(5)	–	–	–
	7,988	12,038	17,380	3,903	9,147

11 EARNINGS PER SHARE

(i) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the Track Record Period.

The earnings per share presented below has not been taken into account the share subdivision and share capitalisation issue pursuant to the resolutions by the shareholders passed on 20 December 2021 as the share capitalisation issue has not become effective as at the date of this report.

In determining the weighted average number of shares, the 1,000,000 shares issued by the Company in connection with the issuance of shares pursuant to Reorganisation (Note 1.2) and the share subdivision and share capitalisation (Note 21) was treated as if it had been in issue since 1 January 2018.

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
Profit attributable to owners of the Company *(HK$'000)*	9,862	24,102	54,548	14,225	17,461
Weighted average number of ordinary shares in issue	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Basic earnings per share (expressed in HK$ per share)	9.86	24.10	54.55	14.23	17.46

(ii) Diluted

Dilutive earnings per share during the Track Record Period equal basic earnings per share as there was no dilutive potential ordinary share during the Track Record Period.

12 DIVIDEND

No dividend has been paid or declared by the Company since its incorporation.

Dividends during each of the Track Record Period represented dividends declared by the companies now comprising the Group to the then equity holders of the companies for each of the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, after elimination of intra-group dividends. The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

Subsequent to 30 June 2021, the Company declared a dividend of HK$27,000,000 as disclosed in Note 32.

13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Motor vehicles *HK$'000*	Computer equipment *HK$'000*	Office equipment *HK$'000*	Mold *HK$'000*	Total *HK$'000*
As at 1 January 2018						
Cost	1,109	2,975	1,457	1,519	55	7,115
Accumulated depreciation	(457)	(1,376)	(664)	(637)	(2)	(3,136)
Net book amount	652	1,599	793	882	53	3,979
Year ended 31 December 2018						
Opening net book amount	652	1,599	793	882	53	3,979
Addition	444	1,547	465	1,974	303	4,733
Disposal	–	–	(16)	–	–	(16)
Depreciation	(586)	(771)	(406)	(683)	(35)	(2,481)
Currency translation differences	(11)	–	(20)	(101)	–	(132)
Closing net book amount	499	2,375	816	2,072	321	6,083
As at 31 December 2018						
Cost	1,536	4,522	1,842	3,361	358	11,619
Accumulated depreciation	(1,037)	(2,147)	(1,026)	(1,289)	(37)	(5,536)
Net book amount	499	2,375	816	2,072	321	6,083
Year ended 31 December 2019						
Opening net book amount	499	2,375	816	2,072	321	6,083
Addition	507	220	465	1,388	568	3,148
Depreciation	(422)	(712)	(422)	(1,182)	(141)	(2,879)
Transfer from right-of-use assets *(Note 14)*	–	377	–	–	–	377
Currency translation differences	(4)	–	(24)	(30)	–	(58)
Closing net book amount	580	2,260	835	2,248	748	6,671
As at 31 December 2019						
Cost	2,033	4,210	2,260	4,655	926	14,084
Accumulated depreciation	(1,453)	(1,950)	(1,425)	(2,407)	(178)	(7,413)
Net book amount	580	2,260	835	2,248	748	6,671

	Leasehold improvements HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Office equipment HK$'000	Mold HK$'000	Total HK$'000
Year ended 31 December 2020						
Opening net book amount	580	2,260	835	2,248	748	6,671
Addition	–	59	437	839	–	1,335
Depreciation	(334)	(852)	(443)	(1,531)	(185)	(3,345)
Disposal	(20)	–	–	–	–	(20)
Currency translation differences	6	–	60	233	–	299
Closing net book amount	232	1,467	889	1,789	563	4,940
As at 31 December 2020						
Cost	2,041	4,269	2,817	5,823	926	15,876
Accumulated depreciation	(1,809)	(2,802)	(1,928)	(4,034)	(363)	(10,936)
Net book amount	232	1,467	889	1,789	563	4,940
Six months ended 30 June 2020 (Unaudited)						
Opening net book amount	580	2,260	835	2,248	748	6,671
Addition	–	55	9	369	–	433
Depreciation	(164)	(453)	(182)	(829)	(92)	(1,720)
Disposal	(20)	–	–	–	–	(20)
Currency translation differences	(3)	(6)	33	(77)	–	(53)
Closing net book amount	393	1,856	695	1,711	656	5,311
As at 30 June 2020 (Unaudited)						
Cost	2,005	4,265	2,258	4,813	927	14,268
Accumulated depreciation	(1,612)	(2,409)	(1,563)	(3,102)	(271)	(8,957)
Net book amount	393	1,856	695	1,711	656	5,311
Six months ended 30 June 2021						
Opening net book amount	232	1,467	889	1,789	563	4,940
Addition	–	–	617	223	–	840
Depreciation	(172)	(429)	(280)	(710)	(93)	(1,684)
Currency translation differences	–	–	3	20	–	23
Closing net book amount	60	1,038	1,229	1,322	470	4,119
As at 30 June 2021						
Cost	2,046	4,270	3,454	6,115	927	16,812
Accumulated depreciation	(1,986)	(3,232)	(2,225)	(4,793)	(457)	(12,693)
Net book amount	60	1,038	1,229	1,322	470	4,119

14 RIGHT-OF-USE ASSETS

This note provides information for leases where the Group is a lessee.

	Building	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31 December 2018			
Opening net book amount	10,512	771	11,283
Additions	6,427	–	6,427
Termination of leases	(1,708)	–	(1,708)
Depreciation	(5,027)	(197)	(5,224)
Currency translation differences	(169)	–	(169)
Closing net book amount	10,035	574	10,609
Year ended 31 December 2019			
Opening net book amount	10,035	574	10,609
Additions	7,660	–	7,660
Termination of leases	(1,136)	–	(1,136)
Depreciation	(5,429)	(197)	(5,626)
Transfer to property, plant and equipment *(Note 13)*	–	(377)	(377)
Currency translation differences	8	–	8
Closing net book amount	11,138	–	11,138
Year ended 31 December 2020			
Opening net book amount	11,138	–	11,138
Depreciation	(6,259)	–	(6,259)
Currency translation differences	522	–	522
Closing net book amount	5,401	–	5,401
Six months ended 30 June 2020 (Unaudited)			
Opening net book amount	11,138	–	11,138
Depreciation	(3,074)	–	(3,074)
Currency translation differences	127	–	127
Closing net book amount	8,191	–	8,191
Six months ended 30 June 2021			
Opening net book amount	5,401	–	5,401
Additions	3,597	–	3,597
Depreciation	(2,846)	–	(2,846)
Currency translation differences	(85)	–	(85)
Closing net book amount	6,067	–	6,067

(i) Amounts recognised in the consolidated profit or loss

	For the year ended 31 December			For the six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Interest expense *(Note 9)*	355	436	344	201	82
Expense relating short-term leases (included in "**rental expenses – short term leases**")	1,453	1,374	897	295	871

The total cash outflow for leases during years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021 were HK$6,027,000, HK$7,743,000, HK$7,948,000, HK$4,034,000 and HK$4,044,000, respectively.

(ii) The Group's leasing activities and how these are accounted for

The Group leases various offices and a motor vehicle. Rental contracts are typically made for fixed periods of 2 years to 5 years.

Lease terms are negotiated on individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets are not be used as security for borrowing purposes.

15 INTANGIBLE ASSETS

	Trademark
	HK$'000
At 1 January 2018	
Cost	787
Accumulated amortisation	(163)
Net book amount	624
Year ended 31 December 2018	
Opening net book amount	624
Additions	100
Amortisation	(85)
Closing net book amount	639
At 1 January 2019	
Cost	887
Accumulated amortisation	(248)
Net book amount	639
Year ended 31 December 2019	
Opening net book amount	639
Additions	166
Amortisation	(101)
Closing net book amount	704

	Trademark *HK$'000*
At 1 January 2020	
Cost	1,053
Accumulated amortisation	(349)
Net book amount	704
Year ended 31 December 2020	
Opening net book amount	704
Additions	1,902
Amortisation	(465)
Closing net book amount	2,141
At 31 December 2020	
Cost	2,955
Accumulated amortisation	(814)
Net book amount	2,141
Six months ended 30 June 2020 (Unaudited)	
Opening net book amount	704
Additions	1,753
Amortisation	(215)
Closing net book amount	2,242
At 30 June 2020 (Unaudited)	
Cost	2,806
Accumulated amortisation	(564)
Net book amount	2,242
Six months ended 30 June 2021	
Opening net book amount	2,141
Additions	168
Amortisation	(168)
Closing net book amount	2,141
At 30 June 2021	
Cost	3,123
Accumulated amortisation	(982)
Closing net book amount	2,141

16 INVENTORIES

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Finished goods – Gross	28,390	28,734	25,203	38,348
Less: provision of obsolete inventories	(6,622)	(5,894)	(3,755)	(4,593)
Finished goods – Net	21,768	22,840	21,448	33,755

Movement of provision of obsolete inventories is as follows:

	Year ended 31 December			For the six months ended 30 June	
	2018	2019	2020	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Beginning of the year/period	5,419	6,622	5,894	5,894	3,755
Provision for/(write-back of) impairment	1,471	(621)	(2,315)	(1,211)	803
Currency translation differences	(268)	(107)	176	(79)	35
End of the year/period	6,622	5,894	3,755	4,604	4,593

During the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, cost of inventories amounted to HK$69,374,000 HK$75,147,000, HK$54,910,000, HK$25,195,000 and HK$27,668,000, respectively, were recognised as expense and included in "cost of inventories sold" within the consolidated statement of comprehensive income.

During the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, provision for/(written back of) impairment amounted to HK$1,471,000, (HK$621,000), (HK$2,315,000), (HK$1,211,000) and HK$803,000, respectively, were included in "cost of inventories sold" within the consolidated statement of comprehensive income.

17 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same taxation authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred income tax assets	3,828	3,011	3,717	3,714
Deferred income tax liabilities	(421)	(360)	(515)	(568)
	3,407	2,651	3,202	3,146

Movement of the deferred income tax account is as follows:

	Year ended 31 December			For the six months ended 30 June	
	2018	2019	2020	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Beginning of the year/period	2,254	3,407	2,651	2,651	3,202
Credited/(charged) to the consolidated statements of comprehensive income *(Note 10)*	1,320	(684)	330	486	(100)
Currency translation differences	(167)	(72)	221	59	44
End of the year/period	3,407	2,651	3,202	3,196	3,146

The movement in deferred income tax assets/(liabilities) during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Tax losses	Decelerated/ (accelerated) depreciation	Provision	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2018	403	(215)	1,745	321	2,254
Credited/(charged) to the consolidated statements of comprehensive income	930	(253)	191	452	1,320
Currency translation differences	(47)	–	(86)	(34)	(167)
As at 31 December 2018	1,286	(468)	1,850	739	3,407
As at 1 January 2019	1,286	(468)	1,850	739	3,407
(Charged)/credited to the consolidated statements of comprehensive income	(485)	(11)	(198)	10	(684)
Currency translation differences	(16)	(1)	(37)	(18)	(72)
As at 31 December 2019	785	(480)	1,615	731	2,651
As at 1 January 2020	785	(480)	1,615	731	2,651
Credited/(charged) to the consolidated statements of comprehensive income	423	(133)	566	(526)	330
Currency translation differences	66	–	136	19	221
As at 31 December 2020	1,274	(613)	2,317	224	3,202

	Tax losses	Decelerated/ (accelerated) depreciation	Provision	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2020	785	(480)	1,615	731	2,651
Credited/(charged) to the consolidated statements of comprehensive income	62	(26)	412	38	486
Currency translation differences	107	–	(33)	(15)	59
As at 30 June 2020	954	(506)	1,994	754	3,196
As at 1 January 2021	1,274	(613)	2,317	224	3,202
(Charged)/credited to the consolidated statements of comprehensive income	(85)	49	(57)	(7)	(100)
Currency translation differences	14	–	27	3	44
As at 30 June 2021	1,203	(564)	2,287	220	3,146

As at 31 December 2018, 2019 and 2020 and 30 June 2021, there were no material unprovided deferred income tax in relation to the unremitted earnings as the Group's management has approved that the unremitted earnings will be not be distributed in the foreseeable future.

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Group has unrecognised tax losses of HK$8,753,000, HK$10,768,000, HK$11,919,000 and HK$14,819,000, respectively that can be carried forward against future taxable income. These tax losses have not been recognised due to uncertainty of future realisation. Such tax losses have no expiry date, except for the tax losses amounting to HK$1,371,000, HK$3,268,000, HK$2,179,000 and HK$3,741,000 which will be expired within 5 years.

18 TRADE RECEIVABLES

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	8,195	24,847	45,765	39,978
Less: loss allowance	(2,291)	(4,656)	(7,490)	(6,372)
	5,904	20,191	38,275	33,606

The Group normally grants credit terms to its customers ranging from 0 to 30 days. The ageing analysis of the trade receivables based on invoice date is as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current – 30 days	4,421	15,186	35,875	29,544
31 – 60 days	84	2,397	1,943	1,291
61 – 90 days	53	943	534	1,751
91 – 120 days	6	2,297	935	477
121 – 180 days	642	1,360	1,405	290
Over 180 days	2,989	2,664	5,073	6,625
	8,195	24,847	45,765	39,978

Movement on the credit loss allowance of trade receivables is as follows:

	Year ended 31 December			For the six months ended 30 June	
	2018	2019	2020	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Beginning of the year/period	(1,477)	(2,291)	(4,656)	(4,656)	(7,490)
(Impairment loss)/reversal of impairment loss on financial assets	(899)	(2,447)	(2,502)	(2,564)	1,178
Currency translation differences	85	82	(332)	(296)	(60)
End of the year/period	(2,291)	(4,656)	(7,490)	(7,516)	(6,372)

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Note 3.1(ii) provides for details about the calculation of the loss allowance.

The gross amounts of the Group's trade receivables are denominated in the following currencies:

	As at 31 December			As at 30 June 2021
	2018	2019	2020	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	3,565	2,325	3,255	2,070
RMB	4,630	22,522	42,510	37,908
	8,195	24,847	45,765	39,978

The maximum exposure to credit risk at the reporting date is the carrying value of the trade receivables mentioned above. The Group does not hold any collateral as security.

19 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at
	2018	**2019**	**2020**	**30 June 2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
VAT recoverable	3,133	2,428	1,879	2,061
Deposits	2,309	3,466	3,378	3,518
Other asset – investment in life insurance contract *(Note (i))*	1,385	1,443	1,217	1,237
Contract costs *(Note (ii))*	1,576	1,208	746	1,063
Other receivables	602	437	391	433
Prepaid listing expenses	–	–	1,447	2,491
Other prepayments	2,687	4,089	2,233	3,933
	11,692	13,071	11,291	14,736
Less: non-current portion				
Contract costs *(Note (ii))*	(738)	(336)	(264)	(227)
Deposits	(332)	(1,505)	–	–
Prepayment for trademarks	(539)	(2,011)	(935)	(1,928)
Other asset – investment in life insurance contract *(Note (i))*	(1,385)	(1,443)	(1,217)	(1,237)
Prepayment for property, plant and equipment	–	–	–	(847)
Other receivables	(384)	(261)	(143)	–
	(3,378)	(5,556)	(2,559)	(4,239)
Current portion	8,314	7,515	8,732	10,497

Note (i):

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the Group held a life insurance policy for a director of the Group. The investment in life insurance contract is denominated in USD. The Group has the right to surrender the insurance partially or in full at any time after the first policy anniversary for cash value. Cash value represents the account value net of surrender charges.

Note (ii):

The amounts represent contract costs directly attributable to obtaining contracts which have been capitalised. During the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021, amortisation of contract costs amounted to HK$797,000, HK$775,000, HK$903,000, HK$355,000 and HK$126,000, respectively, were recognised in the consolidated statements of comprehensive income.

The fair values of deposits and other receivables approximate to their carrying values. The carrying amounts are denominated in the following currencies:

	As at 31 December			As at
	2018	**2019**	**2020**	**30 June 2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	1,374	1,070	1,401	3,642
RMB	6,246	6,453	4,993	3,433
USD	1,385	1,459	1,217	1,237
	9,005	8,982	7,611	8,312

20 CASH AND CASH EQUIVALENTS

	As at 31 December			As at
	2018	**2019**	**2020**	**30 June 2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank	35,895	33,177	60,736	35,801
Cash at licensed payment platforms *(Note a)*	3,149	2,095	3,967	2,415
Cash on hand	46	69	69	77
	39,090	35,341	64,772	38,293

The cash and cash equivalents are denominated in the following currencies:

	As at 31 December			As at
	2018	**2019**	**2020**	**30 June 2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB	37,366	27,333	61,471	36,510
HK$	1,508	7,754	1,770	504
USD	196	211	1,489	1,237
Others	20	43	42	42
	39,090	35,341	64,772	38,293

Notes:

(a) Cash at licensed payment platforms are denominated in RMB, represent cash that were deposited with licensed payment platforms in the Mainland China. The balances are unsecured and non-interest bearing.

(b) As at 31 December 2018, 2019 and 2020 and 30 June 2021, cash and cash equivalents of approximately RMB28,706,000, RMB20,861,000, RMB19,692,000 and RMB20,014,000, respectively (equivalent to HK$32,769,000, HK$23,282,000, HK$23,287,000 and HK$23,997,000, respectively), were deposited with banks in the Mainland China. The conversion of theses RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Mainland China government.

21 COMBINED CAPITAL/SHARE CAPITAL

(a) Combined capital – Group

Combined capital as at 31 December 2018, 2019 and 2020 represents to combined share capital of the companies now comprising the Group after elimination of inter-company transactions and balances. Movement in combined capital is disclosed in the consolidated statements of changes in equity.

(b) Share capital – Company

	Number of ordinary shares	Share capital nominal value *HK$'000*	Share premium *HK$'000*
Authorised:			
At 10 December 2020 (date of incorporation) and 31 December 2020	50,000	388	–
Subdivision of authorised capital	4,950,000	–	–
At 30 June 2021	5,000,000	388	–
Issued and fully paid:			
At 10 December 2020 (date of incorporation) and 31 December 2020	1	–*	–
Issuance of shares of the Company to give effect of the Reorganisation *(Note 1.2)*	9,999	78	64,806
Subdivision of Shares	990,000	–	–
At 30 June 2021	1,000,000	78	64,806

* The amount is less than HK$1,000.

Note: On 14 April 2021, each and every issued and unissued share of US$1.00 par value in the authorised share capital of the Company be subdivided into 100 shares of US$0.01 each, such that the authorised share capital of the Company is US$50,000 divided into 5,000,000 shares of US$0.01 par value each.

On 9 July 2021, pursuant to an investment agreement entered between the Company and City Legend International Limited, ("**City Legend**"), City Legend (i) acquired 62,176 shares from Semk Global, representing 6.0% into of the issued share capital of the Company; and (ii) subscribe for 36,270 new shares, representing 3.5% of the then issued share capital, of the Company at a consideration of approximately HK$90,000,000 and HK$52,500,000, respectively.

Pursuant to shareholders' resolution passed on 20 December 2021, immediately prior to the Listing, each and every issued and unissued share capital of the Company will be subdivided into 400 shares of US$0.000025 each, such that the authorised share capital of the Company is US$50,000 divided into 2,000,000,000 shares of US$0.000025 par value each. 465,492,000 ordinary shares will be allotted and issued to all the then existing shareholders in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then shareholdings in the Company by capitalisation of share premium of US$12,000 (equivalent to approximately HK$94,000).

22 OTHER RESERVES

	Statutory reserve *HK$'000*	Exchange reserve *HK$'000*	Total *HK$'000*
Balance at 1 January 2018	533	(367)	166
Other comprehensive income			
Currency translation differences	–	242	242
Transactions with owners			
Transfer to statutory reserve	724	–	724
	724	242	966
Balance at 31 December 2018 and 1 January 2019	1,257	(125)	1,132
Other comprehensive income			
Currency translation differences	–	(507)	(507)
Transactions with owners			
Transfer to statutory reserve	2,568	–	2,568
	2,568	(507)	2,061
Balance at 31 December 2019 and 1 January 2020	3,825	(632)	3,193
Other comprehensive income			
Currency translation differences	–	2,050	2,050
Transactions with owners			
Transfer to statutory reserve	3,836	–	3,836
	3,836	2,050	5,886
Balance at 31 December 2020	7,661	1,418	9,079
(Unaudited)			
Balance at 1 January 2020	3,825	(632)	3,193
Other comprehensive income			
Currency translation differences	–	(25)	(25)
Transactions with owners			
Transfer to statutory reserve	939	–	939
	939	(25)	914
Balance at 30 June 2020 (Unaudited)	4,764	(657)	4,107

	Statutory reserve	Exchange reserve	Total
	HK$'000	*HK$'000*	*HK$'000*
Balance at 1 January 2021	7,661	1,418	9,079
Other comprehensive income			
Currency translation differences	–	1,414	1,414
Transactions with owners			
Transfer to statutory reserve	418	–	418
	418	1,414	1,832
Balance at 30 June 2021	8,079	2,832	10,911

(a) Statutory reserve

Pursuant to the Mainland China regulations and respective Articles of Association, subsidiaries incorporated in the Mainland China incorporated company are required to transfer 10% of its profit for the year, as determined under the Mainland China Accounting Regulations, to a statutory common reserve fund until the fund balance exceeds 50% of their registered capital. The statutory common reserve fund can be used to offset previous years' losses, if any, and to increase capital.

23 LEASE LIABILITIES

	As at 31 December			As at
	2018	2019	2020	30 June 2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current	4,294	6,567	4,572	3,545
Non-current	6,687	4,976	–	1,790
	10,981	11,543	4,572	5,335

The Group leases various properties for warehouses, office premises and motor vehicles. These lease liabilities were measured at net present value of the lease payments during the lease terms that are not yet paid at the end of each reporting period.

24 TRADE PAYABLES

	As at 31 December			As at
	2018	2019	2020	30 June 2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables				
– Third parties	286	2,209	1,498	1,293
– A related party *(Note 29(b))*	15,429	8,204	2,326	3,697
	15,715	10,413	3,824	4,990

The credit period granted by suppliers for trade payables generally range around 60 days. The ageing analysis of the trade payables by invoice date is as follows:

	As at 31 December			As at
	2018	**2019**	**2020**	**30 June 2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Up to 30 days	9,249	2,259	1,343	4,136
31 to 60 days	2,520	486	732	311
61 to 90 days	412	379	481	52
Over 90 days	3,534	7,289	1,268	491
	15,715	10,413	3,824	4,990

The Group's trade payables are denominated in the following currencies:

	As at 31 December			As at
	2018	**2019**	**2020**	**30 June 2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	5,006	5,088	170	314
RMB	10,709	5,325	3,654	4,676
	15,715	10,413	3,824	4,990

25 ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at
	2018	**2019**	**2020**	**30 June 2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accrued expenses	2,713	4,215	2,997	3,150
Accrued salary and other benefits	4,025	3,916	3,864	2,335
Accrued listing expenses	200	1,203	3,003	2,673
Other payables	4,030	2,292	2,584	2,338
Customers deposits	1,588	236	204	217
Value added tax and other tax payable	1,056	2,730	3,524	5,020
Provision of sales return	756	1,237	858	770
	14,368	15,829	17,034	16,503

As at 31 December 2018, 2019 and 2020 and 30 June 2021, accruals and other payables approximate their fair values and are denominated in the following currencies:

	As at 31 December			As at
	2018	**2019**	**2020**	**30 June 2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	5,502	6,948	7,845	5,743
RMB	8,672	8,860	9,189	10,760
USD	194	21	–	–
	14,368	15,829	17,034	16,503

26 BORROWINGS

	As at 31 December			As at
	2018	**2019**	**2020**	**30 June 2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current				
Bank borrowings – secured	13,103	30,620	42,867	39,617
Bank overdrafts *(Note 28(c))*	4,252	9,571	3,936	3,013
	17,355	40,191	46,803	42,630

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the carrying amounts of the borrowings approximate their fair values and are denominated in the following currencies:

	As at 31 December			As at
	2018	**2019**	**2020**	**30 June 2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	17,355	39,745	45,761	41,693
USD	–	446	1,042	937
	17,355	40,191	46,803	42,630

The amounts repayable based on the scheduled repayment date set out in the loan agreements ignoring the effect of any repayment on demand clause are as follows:

	As at 31 December			As at
	2018	**2019**	**2020**	**30 June 2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	8,441	18,804	11,024	10,403
Between 1 to 2 years	8,038	9,986	7,301	7,491
Between 2 to 5 years	876	11,401	28,478	24,736
	17,355	40,191	46,803	42,630

As at 31 December 2018, 2019 and 2020 and 30 June 2021, the weighted average effective interest rate of bank borrowing was 3.8% per annum, 4.4% per annum, 3.7% per annum and 2.8% per annum, respectively.

As at 31 December 2018, 2019 and 2020 and 30 June 2021, banking facilities of HK$28,285,000, HK$77,080,000, HK$64,971,000 and HK$60,894,000 were granted by banks to subsidiaries of the Group, of which HK$18,037,000, HK$47,567,000, HK$53,030,000 and HK$47,888,000 were utilised by the subsidiary. The facilities are secured by:

(i) Personal guarantees by Mr. Hui Ha Lam, the director of the Company and his spouse;

(ii) Corporate guarantees by certain related companies and certain subsidiaries of the Group; and

(iii) Certain buildings held by related companies of the Group and Mr. Hui Ha Lam respectively.

Securities and guarantees provided by related parties will be released prior to or upon listing.

The Group has the following undrawn banking facilities:

	As at 31 December			As at
	2018	**2019**	**2020**	**30 June 2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Floating rate	10,248	29,513	11,941	13,006

27 FINANCIAL INSTRUMENTS BY CATEGORY

The following is an analysis of financial instruments by category:

	As at 31 December			As at
	2018	**2019**	**2020**	**30 June 2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Financial assets at amortised cost				
– Trade receivables *(Note 18)*	5,904	20,191	38,275	33,606
– Deposits and other receivables (excluding non-financial assets) *(Note 19)*	2,389	3,508	3,447	3,603
– Amounts due from related parties *(Note 29(b))*	510	10,790	15,618	19,975
– Cash and cash equivalents *(Note 20)*	39,090	35,341	64,772	38,293
	47,893	69,830	122,112	95,477

	As at 31 December			As at
	2018	**2019**	**2020**	**30 June 2021**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liabilities				
Financial liabilities at amortised cost				
– Trade payables *(Note 24)*	15,715	10,413	3,824	4,990
– Amount due to a related party *(Note 29(b))*	10,336	–	–	–
– Other payables (excluding non-financial liabilities) *(Note 25)*	9,285	9,183	9,646	8,378
– Borrowings *(Note 26)*	17,355	40,191	46,803	42,630
– Lease liabilities *(Note 23)*	10,981	11,543	4,572	5,335
	63,672	71,330	64,845	61,333

28 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation of profit before income tax to cash generated from operations:

		Year ended 31 December			For the six months ended 30 June	
		2018	**2019**	**2020**	**2020**	**2021**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Cash flows from operating activities						
Profit before income tax		17,850	36,140	71,928	18,128	26,608
Adjustment for:						
– Depreciation and amortisation		7,790	8,606	10,069	5,009	4,698
– Provision for/(reversal of) impairment of inventories	*16*	1,471	(621)	(2,315)	(1,211)	803
– Changes in surrender value of investment in life insurance contract	*6*	(66)	(58)	262	–	(20)
– Net impairment loss/(reversal of impairment loss) on financial assets and contract assets		1,121	2,216	3,234	1,649	(1,929)
– Finance income	*9*	(53)	(60)	(43)	(19)	(10)
– Finance costs	*9*	1,108	1,706	2,149	1,168	803
Operating profit before working capital changes		29,221	47,929	85,284	24,724	30,953
Changes in working capital:						
– Trade receivables		(99)	(17,077)	(20,062)	(8,417)	5,789
– Contract assets		(8,861)	3,164	(5,966)	1,047	5,538
– Inventories		14,921	(537)	3,796	11,554	(13,145)
– Deposits, prepayments and other receivables		(2,657)	972	1,180	827	(707)
– Trade payables		(8,804)	(5,163)	(6,589)	(3,735)	1,166
– Accruals, provision and other payables		1,503	131	(289)	(7,229)	(531)
– Contract liabilities		875	1,440	8,691	(3,048)	(2,267)
Net cash generated from operations		26,099	30,859	66,045	15,723	26,796

(b) Disposal of property, plant and equipment

	Year ended 31 December			For the six months ended 30 June	
	2018	2019	2020	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Proceeds	16	–	20	20	–
Net book value of disposed property, plant and equipment *(Note 13)*	(16)	–	(20)	(20)	–
Gain/(loss) on disposals	–	–	–	–	–

(c) For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following:

	As at 31 December			As at 30 June 2021
	2018	2019	2020	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances *(Note 20)*	39,090	35,341	64,772	38,293
Bank overdrafts *(Note 26)*	(4,252)	(9,571)	(3,936)	(3,013)
	34,838	25,770	60,836	35,280

(d) Reconciliation of liabilities arising from financial activities:

	Liabilities from financing activities			
	Lease liabilities	Bank borrowings	Amount due to related parties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2018	10,739	17,140	20,000	47,879
Cash flows	(4,574)	(4,790)	(9,664)	(19,028)
Non-cash transactions:				
– Increase in lease liabilities from entering into new leases	4,719	–	–	4,719
– Interest incurred	355	753	–	1,108
– Currency translation differences	(258)	–	–	(258)
As at 31 December 2018	10,981	13,103	10,336	34,420

	Liabilities from financing activities			
	Lease liabilities	**Bank borrowings**	**Amount due to related parties**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2019	10,981	13,103	10,336	34,420
Cash flows	(6,369)	16,247	(15,136)	(5,258)
Non-cash transactions:				
– Dividend declared	–	–	15,000	15,000
– Transfer to amount due from a related party	–	–	(10,200)	(10,200)
– Increase in lease liabilities from entering into new leases	6,524	–	–	6,524
– Interest incurred	436	1,270	–	1,706
– Currency translation differences	(29)	–	–	(29)
As at 31 December 2019	11,543	30,620	–	42,163
As at 1 January 2020	11,543	30,620	–	42,163
Cash flows	(7,051)	10,442	(4,300)	(909)
Non-cash transactions:				
– Dividend declared	–	–	15,000	15,000
– Transfer to amount due from a related party	–	–	(10,700)	(10,700)
– Interest incurred	344	1,805	–	2,149
– Currency translation differences	(264)	–	–	(264)
As at 31 December 2020	4,572	42,867	–	47,439
(Unaudited)				
As at 1 January 2020	11,543	30,620	–	42,163
Cash flows	(3,739)	15,892	–	12,153
Non-cash transactions:				
– Interest incurred	201	967	–	1,168
– Currency translation differences	63	–	–	63
As at 30 June 2020	8,068	47,479	–	55,547

	Liabilities from financing activities			
	Lease liabilities	Bank borrowings	Amount due to related parties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2021	4,572	42,867	–	47,439
Cash flows	(3,173)	(3,971)	(27,450)	(35,944)
Non-cash transactions:				
– Dividend declared	–	–	27,450	27,450
– Increase in lease liabilities from entering into new leases	3,597	–	–	3,597
– Interest incurred	82	721	–	803
– Currency translation differences	257	–	–	257
As at 30 June 2021	5,335	39,617	–	44,952

(e) Major non-cash transaction:

During the year ended 31 December 2018, dividend payable of HK$10,000,000 due to SEMK Cayman was transferred to amount due to SEMK Products (Holdings) Limited.

During the year ended 31 December 2019, dividend payable of HK$10,200,000 due to SEMK Cayman was transferred to amount due from SEMK Products (Holdings) Limited.

During the year ended 31 December 2020, dividend payable of HK$10,700,000 due to SEMK Cayman was transferred to amount due from SEMK Products (Holdings) Limited.

29 RELATED PARTIES TRANSACTIONS

The directors of the Company are of the view that the following companies or individuals were related parties that had transactions or balances with the Group as at and during Track Record Period:

Related parties	**Relationship with the Group**
Semk Products (Holdings) Limited	Ultimate holding company
Semk Global	Intermediate holding company
Semk Cayman	Holding company
ENS International	Holding company
ISA Global Licensing Limited	A company controlled by Mr. Hui Ha Lam
Kafutoy Industrial Co Limited	A company controlled by Mr. Hui Pak Shun and Ms. Ng Pui Ching, parents of Mr. Hui Ha Lam
ENS Toys (Huizhou) Limited ("**ENS Toys**")	A company controlled by Mr. Hui Ha Lam

(a) Transactions with related parties

The following transactions were carried out with related parties at terms mutually agreed by the relevant parties.

	Year ended 31 December			For the six months ended 30 June	
	2018	2019	2020	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(Unaudited)*	*HK$'000*
Purchase of goods:					
– ENS Toys	(50,788)	(51,011)	(26,414)	(11,435)	(20,581)
Management fee income *(Note 6)*:					
– ENS Toys	569	676	953	469	1,018
Office co-sharing expense *(Note 8)*:					
– ENS Toys	(29)	(29)	(29)	(15)	(15)
Rental expense – short term:					
– Kafutoy Industrial Co Limited	(373)	(373)	(373)	(186)	(240)
– ISA Global Licensing Limited	(169)	(169)	(169)	(84)	(108)
	(542)	(542)	(542)	(270)	(348)
Advance to a related party:					
– SEMK Products (Holdings) Limited	–	(20,480)	(15,528)	(11,948)	(4,357)

(b) Balances with related parties – Group

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-trade:				
Other receivables from related parties:				
– Semk Global	447	–	–	–
– Semk Cayman	46	–	–	–
– ENS International	17	31	–	–
– Semk Products (Holdings) Limited	–	10,759	15,618	19,975
	510	10,790	15,618	19,975
Other payables to a related party:				
– Semk Products (Holdings) Limited	(10,336)	–	–	–
Trade:				
Trade payables to a related party:				
– ENS Toys (Huizhou) Limited	(15,429)	(8,204)	(2,326)	(3,697)

The above balances were unsecured, interest-free and repayable on demand.

The carrying amounts of the balances approximate their fair value.

Subsequent to 30 June 2021, non-trade amount due from Semk Products (Holdings) Limited has been full settled as disclosed in Note 32.

Balances with related parties – Company	**As at 31 December 2020**	**As at 30 June 2021**
Amount due from immediate holding company		
– ENS International	–*	–
Amounts due to subsidiaries		
–Semk Investment	–	344
–Semk Hong Kong	–	84
–Semk Licensing	966	3,152
–Semk Products	2,820	12,144
	3,786	15,724

* The amount is less than HK$1,000

(c) Key management compensation

Key management includes directors (executive and non-executive) and certain senior management. The compensation paid or payable to key management for employee services is shown below:

	Years ended 31 December			**For the six months ended 30 June**	
	2018	**2019**	**2020**	**2020**	**2021**
	HK$	*HK$*	*HK$*	*HK$* *(Unaudited)*	*HK$*
Salaries and allowances	6,005	6,459	5,480	2,697	3,257
Bonus	1,313	1,109	1,419	1,419	908
Pension costs – defined contribution plan	262	258	232	105	122
	7,580	7,826	7,131	4,221	4,287

30 RESERVE MOVEMENT OF THE COMPANY

	Accumulated losses *HK$'000*
As at 10 December 2020 (date of incorporation)	–
Loss for the year	(5,342)
As at 31 December 2020	(5,342)
Loss for the period	(10,564)
As at 30 June 2021	(15,906)

31 CONTINGENT LIABILITIES

On 9 July 2020, a third party ("**Claimant**") filed three civil complaints before the Intermediate People's Court of Jinan City. The complaints were lodged against (i) ENS Retailing and ENS IT; (ii) ENS Toys; (iii) a licensee of the Group (the "**Licensee**"); and/or (iv) a distributor of the Licensee and its executive director (the "**Distributor**"), alleging that the aforesaid parties had infringed the Claimant's rights as the licensee of certain registered trademarks (the "**Claimant's Trademarks**") by engaging in the manufacturing, distribution and sales of toys and shoes and apparel (as the case may be) bearing trademarks of the Group (the "**Alleged Trademarks**"), which were alleged to be similar to the Claimant's Trademarks. The Claimant's claims were initially dismissed in October 2020 after the first hearings held in September 2020. Such dismissal was overturned upon appeal in February 2021 and July 2021 respectively.

Pursuant to the appeal judgements, the Group is liable to pay RMB266,000 (equivalent to approximately HK$319,000) for damages and costs, while ENS Toys, the Licensee and the Distributor (together the "**Other Defendants**") are liable to pay RMB2,804,000 (equivalent to approximately HK$3,369,000) for damages and costs in aggregate.

As advised by the legal advisor of the Group, the granting of the Alleged Trademarks constitutes a breach of the licensing contract between the Group and the Licensee. On such basis, should the Other Defendants raise claim against the Group, the Group might be liable for the losses incurred by the Other Defendants pursuant to the claims. These losses include, namely, (i) the damages payable by the Other Defendants to the Claimant; (ii) the licensing fee prepaid by the Licensee in connection with the licensing of the Alleged Trademarks; (iii) cost of inventories bearing the Alleged Trademarks of the Licensee and the Distributor; and (iv) cost to recall and repackage the inventories with the Alleged Trademarks on the packaging. To the best of knowledge of the directors after enquiring with the Licensee and the Distributor, the Group might be liable for not more than RMB3,777,000 (equivalent to approximately HK$4,504,000). The directors have evaluated all the circumstances, including legal advice on the above claim and the relationships with the Other Defendants, and considered that it is more likely that the Other Defendants would not demand compensation from the Group as at 30 June 2021. Up to the date of this report, no claim has been made against the Group.

32 SUBSEQUENT EVENTS

On 9 July 2021, pursuant to an investment agreement entered between the Company and City Legend, City Legend (i) acquired 62,176 shares from Semk Global, representing 6.0% into of the issued share capital of the Company; and (ii) subscribe for 36,270 new shares, representing 3.5% of the then issued share capital, of the Company at a consideration of approximately HK$90,000,000 and HK$52,500,000, respectively.

On 13 September 2021, the Company declared a dividend of HK$27,000,000. Dividend payable of HK$20,348,000 due to Semk Global has been transferred to and offset with the non-trade amount due from Semk Products (Holdings) Limited.

Pursuant to shareholders' resolution passed on 20 December 2021, immediately prior to the Listing, each and every issued and unissued share capital of the Company will be subdivided into 400 shares of US$0.000025 each, such that the authorised share capital of the Company is US$50,000 divided into 2,000,000,000 shares of US$0.000025 par value each. 465,492,000 ordinary shares will be allotted and issued to all the then existing shareholders in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then shareholdings in the Company.

On 20 December 2021, the controlling shareholder entered into a deed of indemnity with the Group to indemnify any losses, costs expenses, damages and other liabilities suffered by the Group, directly or indirectly, in connection with all the contingent liabilities as disclosed in Note 31 upon Listing.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2021. Save as disclosed in note 12, no other dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2021.

The information set out in this Appendix does not form part of the Accountant's Report from the reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2021 as if the Global Offering had taken place on 30 June 2021 assuming the over-allotment is not exercised.

This unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 30 June 2021 or at any future dates following the Global Offering. It is prepared based on the consolidated net assets of the Group as at 30 June 2021 as set out in the Accountant's Report of the Group, the text of which is set out in Appendix I to this Prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted consolidated net tangible assets does not form part of the Accountant's Report.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2021	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company as at 30 June 2021**	**Unaudited pro forma adjusted consolidated net tangible assets per Share**
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 3)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
Based on an Offer Price of HK$2.05 per Share	77,429	220,279	297,708	0.31
Based on an Offer Price of HK$3.45 per Share	77,429	378,186	455,615	0.47

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2021 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is the audited consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2021 of HK$79,570,000, with an adjustment for the intangible assets attributable to the owners of the Company as at 31 December 2020 of HK$2,141,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$2.05 and HK$3.45 per share after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately HK$13,433,000 which have been accounted for in the consolidated statement of comprehensive income of the Group prior to 30 June 2021) paid/payable by the Group and does not take account of any Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme, any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate to issue Shares and the general mandate to repurchase Shares as described in the section headed "Share Capital" in this Prospectus.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 964,999,469 Shares were in issue (excluding 35,000,531 Shares, being the 36,270 Shares issued to City Legend International Limited and the corresponding impact of the Share Subdivision and Capitalisation Issue), assuming that the Global Offering, the Share Subdivision and the Capitalisation Issue have been completed on 30 June 2021 but does not take account of any Shares which may be issued upon the exercise of options granted under the Share Option Scheme, any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate to issue Shares and general mandate to repurchase Shares as described in the section headed "Share Capital" in this prospectus.

(4) No adjustments have been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2021. In particular, the Unaudited Pro Forma Financial Information does not take into account of the declared final dividend on 13 September 2021 of approximately HK$27,000,000 declared by the Company. Had the final dividend of approximately HK$27,000,000 been taken into account, the unaudited pro forma consolidated net assets per Share attributable to the owners of the Company after completion of the Global Offering, the Share Subdivision and the Capitalisation Issue would have been approximately HK$0.28 and HK$0.44 respectively, based on the indicative Offer Price of HK$2.05 and HK$3.45 per Share respectively, assuming the Global Offering, the Share Subdivision and the Capitalisation Issue had been completed on 30 June 2021 but does not take into account of any Shares which may be issued upon the exercise of options granted under the Share Option Scheme or any Shares which may be issued upon the exercise of the Over-allotment Option or any shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate to issue Shares and the general mandate to repurchases Shares.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

pwc

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Semk Holdings International Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Semk Holdings International Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets of the Group as at 30 June 2021, and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages II-1 to II-2 of the Company's prospectus dated 30 December 2021, in connection with the proposed global offering of the shares of the Company (the "**Prospectus**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2 of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed global offering on the Group's financial position as at 30 June 2021 as if the proposed global offering had taken place at 30 June 2021. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the six months ended 30 June 2021, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7, *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed global offering at 30 June 2021 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 30 December 2021

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands companies law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 December 2020 under the Companies Act. The Company's constitutional documents consist of the Memorandum and the Articles.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association of the Company was conditionally adopted on 20 December 2021 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

The Memorandum of Association is available on display on the websites of the Stock Exchange and the Company as specified in "Documents delivered to the Registrar of Companies and Documents on Display — B. Documents on Display" set out in Appendix V to this Prospectus.

2. ARTICLES OF ASSOCIATION

The Articles of Association of the Company were conditionally adopted on 20 December 2021 and include provisions to the following effect:

(a) Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is US$50,000 divided into 2,000,000,000 shares of US$0.000025 each.

(b) Directors

(i) Power to allot and issue Shares

Subject to the provisions of the Companies Act and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Act and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(ii) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Act expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Act and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(iii) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(iv) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(v) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(vi) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

(i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:

(A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or

(B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(vii) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(viii) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election at that meeting, but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his term of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may also by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed.

The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

(i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;

(ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

(iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;

(iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;

(vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

(vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(ix) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(x) Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairperson of the meeting shall have a second or casting vote.

(c) Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

(d) Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

(i) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(ii) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Act; and

(iii) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Act, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Act.

(f) Special resolution — majority required

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Act, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

(g) Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairperson of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

(h) Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting in each financial year. The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the voting rights, on a one vote per share basis, the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and the resolutions to be added to the meeting agenda, and signed by the requisitionist(s). If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

(i) Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Act.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Act or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

(j) Auditors

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

(k) Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Directors, in their absolute discretion, consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

The Directors also have the power to provide in every notice calling a general meeting that in the event of a gale warning or a black rainstorm warning is in force at any time on the day of the general meeting (unless such warning is cancelled at least a minimum period of time prior to the general meeting as the Directors may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date.

Where a general meeting is postponed:

(i) the Company shall endeavour to cause a notice of such postponement, which shall set out the reason for the postponement in accordance with the Listing Rules, to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, but failure to place or publish such notice shall not affect the automatic postponement of a general meeting due to a gale warning or black rainstorm warning being in force on the date of the general meeting;

(ii) the Directors shall fix the date, time and place for the reconvened meeting and at least seven clear days' notice shall be given for the reconvened meeting; and such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and

(iii) only the business set out in the notice of the original meeting shall be transacted at the reconvened meeting, and notice given for the reconvened meeting does not need to specify the business to be transacted at the reconvened meeting, nor shall any accompanying documents be required to be recirculated. Where new business is to be transacted at such reconvened meeting, the Company shall give a fresh notice for such reconvened meeting in accordance with the Articles of Association.

(l) Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

(i) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(ii) the instrument of transfer is in respect of only one class of shares;

(iii) the instrument of transfer is properly stamped (in circumstances where stamping is required);

(iv) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;

(v) the shares concerned are free of any lien in favour of the Company; and

(vi) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

(m) Power of the Company to purchase its own shares

The Company is empowered by the Companies Act and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

(n) Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

(o) Dividends and other methods of distribution

Subject to the Companies Act and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

(p) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

(q) Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

(r) Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

(s) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairperson which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2(d) above.

(t) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

(u) Procedure on liquidation

Subject to the Companies Act, the Company may by special resolution resolve that the Company be wound up voluntarily. If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Act, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Act, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

(v) Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

3. CAYMAN ISLANDS COMPANIES LAW AND TAXATION

(a) Introduction

The Companies Act is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Act and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Act, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(b) Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 December 2020 under the Companies Act. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

(c) Share Capital

The Companies Act permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Act provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act);

(iv) writing-off the preliminary expenses of the company;

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(vi) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Act, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Dividends and Distributions

With the exception of section 34 of the Companies Act, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3(c) above for details).

(e) Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

(f) Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

(g) Disposal of Assets

The Companies Act contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

(h) Accounting and Auditing Requirements

The Companies Act requires that a company shall cause to be kept proper books of account with respect to:

(i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(ii) all sales and purchases of goods by the company; and

(iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(j) Inspection of Books and Records

Members of a company will have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(k) Special Resolutions

The Companies Act provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

(l) Subsidiary Owning Shares in Parent

The Companies Act does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

(m) Mergers and Consolidations

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

(n) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

(o) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(p) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(q) Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

(r) Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(s) Taxation

Pursuant to section 6 of the Tax Concessions Act (As Revised) of the Cayman Islands, the Company has obtained an undertaking from the Financial Secretary of the Cayman Islands:

(i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(ii) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

(i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Act (As Revised).

The undertaking is for a period of twenty years from 14 December 2020.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

(t) Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

4. GENERAL

Maples and Calder (Hong Kong) LLP, the Company's legal adviser on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands companies law. This letter, together with a copy of the Companies Act, is available on display on the websites as referred to in "Documents delivered to the Registrar of Companies and Documents on Display — B. Documents on Display" set out in Appendix V to this Prospectus. Any person wishing to have a detailed summary of Cayman Islands companies law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10 December 2020 under the Cayman Companies Act.

We have registered a place of business in Hong Kong at Unit No. 2806, 28/F, the Octagon, 6 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong, and have been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 9 June 2021. Mr. Hui has been appointed as our agent for the acceptance of service of process and notices in Hong Kong. The address for service of process on the Company in Hong Kong is the same as its registered place of business in Hong Kong set out above.

As we are incorporated in the Cayman Islands, our corporate structure, our Memorandum of Association and Articles of Association are subject to the relevant laws of the Cayman Islands. See Appendix III to this Prospectus for a summary of the relevant provisions of our Memorandum of Association and Articles of Association and certain relevant aspects of Cayman Islands companies law.

2. Changes in share capital of our Company

(a) Increase in authorised share capital

As at the date of our incorporation, the authorised share capital of our Company was US$50,000 divided into 50,000 Shares of a par value of US$1.00 each. The following sets out the changes in our Company's issued share capital since the date of its incorporation:

(a) As at the date of incorporation of our Company on 10 December 2020, our authorised share capital was US$50,000 divided into 50,000 Shares of a par value of US$1.00 each, of which one fully-paid Share was issued and allotted to the subscriber. On the even date, such fully-paid share was transferred by ENS International to nil consideration.

(b) On 14 April 2021, every one existing issued and unissued Share of par value of US$1.00 in the share capital of the Company was subdivided into 100 subdivided Shares of par value of US$0.01 each. Upon completion of the subdivision, the Company's authorised share capital was US$50,000, divided into 5,000,000 shares of US$0.01 each.

(c) Pursuant to the resolutions of our Shareholders passed on 20 December 2021, immediately prior to the completion of the Global Offering, every one existing issued and unissued Share of par value of US$0.01 in the share capital of the Company will be subdivided into 400 subdivided Shares of par value of US$0.000025 each. Upon completion of the subdivision, the Company's authorised share capital was US$50,000, divided into 2,000,000,000 Shares of US$0.000025 each.

(d) Immediately following completion of the Share Subdivision, the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or Shares which may be issued upon exercise of any option which may be granted under the Share Option Scheme), the authorised share capital of our Company will be US$50,000 divided into 2,000,000,000 Shares of US$0.000025 each, of which 1,000,000,000 Shares will be issued, fully paid or credited as fully paid, and 1,000,000,000 Shares will remain unissued.

Other than pursuant to the exercise of the Over-allotment Option and the exercise of the options which may be granted under the Share Option Scheme, there is no present intention to issue any part of our authorised but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed above, there has been no alteration in our Company's share capital since the date of our incorporation.

(b) Founder shares

Our Company has no founder shares, management shares or deferred shares.

3. Resolutions of our Shareholders

Pursuant to the written resolutions of the Shareholders of our Company passed on 20 December 2021, our Shareholders resolved, among other matters, that:

(a) the Memorandum of Association and Articles of Association were approved and adopted conditional upon and with effect from the Listing;

(b) conditional on (aa) the Listing Division of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this Prospectus; (bb) the Offer Price having been determined; (cc) the execution and delivery of the Underwriting Agreements on or before the date as mentioned in this Prospectus; and (dd) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the day falling 30 days after the date of this Prospectus:

(i) the Global Offering and the granting of the Over-allotment Option were approved and our Directors were authorised to allot and issue the Shares pursuant to the Global Offering and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;

(ii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 15 of this Appendix, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at our Directors' absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to implement the Share Option Scheme;

(iii) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise US$11,637.30 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 465,492,000 Shares for allotment and issue to holder of Shares whose name appears on the register of members of our Company at the close of business on the day prior to the Listing Date (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted and issued) to their then existing holdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation and distribution;

(iv) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles of Association, or pursuant to the exercise of any options granted or to be granted under the Share Option Scheme, or under the Capitalisation Issue or the Global Offering or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Share Subdivision, the Capitalisation Issue and the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any option granted or to be granted under the Share Option Scheme, and (bb) the aggregate nominal amount of the share capital of the Company which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (v) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first;

(v) a general unconditional mandate was given to our Directors to exercise all powers of our Company to purchase or repurchase Shares on the Stock Exchange or other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Share Subdivision, the Capitalisation Issue and the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any option granted or to be granted under the Share Option Scheme until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and

(vi) the extension of the general mandate to allot, issue and deal with Shares pursuant to paragraph (iv) above to include the nominal amount of Shares which may be purchased or repurchased pursuant to paragraph (v) above.

4. Group reorganisation

Our companies comprising our Group underwent a reorganisation to rationalise our Group's structure in preparation for the Listing. For more details regarding the Reorganisation, please see "History, Corporate Structure and Reorganisation — Reorganisation" in this Prospectus.

5. Changes in share capital of subsidiaries of our Group

The subsidiaries of our Company are listed in the Accountants' Report set out in Appendix I to this Prospectus.

Save as disclosed in "History, Corporate Structure and Reorganisation" in this Prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this Prospectus.

6. Repurchase of our own Shares

This section includes information relating to the repurchase of our Shares, including information required by the Stock Exchange to be included in this Prospectus concerning such repurchase.

(a) Relevant Legal and Regulatory Requirements

The Listing Rules permit our shareholders to grant to our Directors a general mandate to repurchase our Shares that are listed on the Stock Exchange. Such mandate is required to be given by way of an ordinary resolution passed by our shareholders in a general meeting.

(b) Shareholders' Approval

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by ordinary resolutions of our Shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

On 20 December 2021, our Directors were granted a general unconditional mandate to repurchase up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering on the Stock Exchange or on any other stock exchange on which our securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose before any exercise of the Over-allotment Option. This mandate will expire at the earliest of (i) the conclusion of our next annual Shareholders' general meeting, (ii) the date by which our next Shareholders' general meeting is required by applicable laws and our Articles of Association to be held, or (iii) such mandate being revoked or varied by ordinary resolutions of our Shareholders in a general meeting (the "**Relevant Period**").

(c) Reasons for Repurchases

Our Directors believe that it is in our Company and our Shareholders' best interests for our Directors to have general authority to execute repurchases of our Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and our Shareholders.

(d) Funding of Repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with our Memorandum of Association and Articles of Association, the applicable laws of the Cayman Islands and the Listing Rules.

Under the Cayman Companies Act, any repurchase of shares may be made out of the profits of our Company, the share premium amount of our Company or the proceeds of a fresh issue of Share made for the purpose of the repurchase or, subject to the memorandum of Association and Articles of Association and the Cayman Companies Act, out of capital and, in the case of any premium payable on a purchase over the par value of the Shares to be repurchased must be provided for, out of either or both of the profits of our Company or the share premium account of our Company or, subject to the memorandum of Association and Articles of Association and the Cayman Companies Act, out of capital.

On the basis of the current financial position of our Company as disclosed in this Prospectus and taking into account the current working capital position of our Company, our Directors believe that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this Prospectus. However, our Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(e) Share Capital

The exercise in full of the current repurchase mandate, on the basis of 1,000,000,000 Shares in issue immediately after completion of the Global Offering, could accordingly result in up to 100,000,000 Shares being repurchased by us during the Relevant Period.

(f) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any of our Shares to us or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules, our Memorandum of Association and Articles of Association, the Cayman Companies Act and any other applicable laws of the Cayman Islands.

If, as a result of any repurchase of our Shares, a Shareholders' proportionate interest in our voting rights is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Our Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

No connected person as defined by the Listing Rules has notified us that he or it has a present intention to sell his or its Shares to us, or has undertaken not to do so, if the repurchase mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

7. Summary of material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this Prospectus that are or may be material to our business:

(a) an agreement dated 13 February 2020 entered into between Semk International Enterprise Limited, Wong's international Holdings Limited, Semk Holdings, Semk Products Limited, Top Plenty and Semk Cayman to amend a share purchase agreement dated 22 August 2016 (which was amended by a supplemental agreement dated 19 September 2016);

(b) an instrument of transfer and the bought and sold notes both dated 22 February 2021 entered into between ENS International as transferor and our Company as transferee in respect of transfer of one share in ENS Holdings from ENS International to our Company and in consideration thereof, our Company allotting and issuing 99 ordinary shares of our Company to ENS International;

(c) an instrument of transfer and the bought and sold notes both dated 22 February 2021 entered into between our Company as transferor and Semk BVI as transferee in respect of transfer of one share in ENS Holdings from our Company to Semk BVI and in consideration thereof, Semk BVI allotting and issuing 99 ordinary shares of Semk BVI to our Company;

(d) an instrument of transfer dated 19 March 2021 entered into between Semk Cayman as transferor and our Company as transferee in respect of transfer of 62,500 shares in Semk International from Semk Cayman to our Company;

(e) an instrument of transfer dated 24 March 2021 entered into between our Company as transferor and Semk International as transferee in respect of transfer of 100 ordinary shares in Semk BVI from our Company to Semk International;

(f) an instrument of transfer dated 24 March 2021 entered into between Semk International as transferor and Semk Investment as transferee in respect of transfer of 100 ordinary shares in Semk BVI from Semk International to Semk Investment;

(g) an instrument of transfer dated 24 March 2021 entered into between Semk Investment as transferor and Semk Products as transferee in respect of transfer of 100 ordinary shares in Semk BVI from Semk Investment to Semk Products;

(h) a share purchase agreement dated 14 April 2021 entered into between Semk Global, Wisdom Thinker and our Company, pursuant to which Semk Global agreed to transfer 26,600 Shares to Wisdom Thinker at a consideration of HK$39.9 million;

(i) a share purchase agreement dated 14 April 2021 entered into between Semk Global, Unite Way and our Company, pursuant to which Semk Global agreed to transfer 13,400 Shares to Unite Way at a consideration of HK$20.1 million;

(j) a shareholders' agreement dated 15 April 2021 entered into between Semk Global, Top Plenty, Wisdom Thinker, Sky Planner, Unite Way and our Company, pursuant to which shareholders' rights were agreed among the parties;

(k) an investment agreement dated 7 July 2021 entered into between Semk Global, City Legend, Mr. Hui and our Company, pursuant to which City Legend agreed to purchase 62,176 Shares from Semk Global at a consideration of HK$89,999,760 and City Legend agreed to subscribe 36,270 Shares at a consideration of HK$52,500,825;

(l) a supplemental share purchase agreement dated 9 July 2021 entered into between Semk Global, Wisdom Thinker and our Company pursuant to which Semk Global shall procure the Company to achieve certain performance targets;

(m) a supplemental share purchase agreement dated 9 July 2021 entered into between Semk Global, Unite Way and our Company pursuant to which Semk Global shall procure the Company to achieve certain performance targets;

(n) an amended and restated shareholders' agreement dated 9 July 2021 entered into between Semk Global, Top Plenty, Wisdom Thinker, Sky Planner, Unite Way, City Legend and our Company, pursuant to which the shareholders' agreement dated 15 April 2021 was superseded and shareholders' rights were agreed among the parties;

(o) the Deed of Non-Competition;

(p) the Deed of Indemnity; and

(q) the Hong Kong Underwriting Agreement.

8. Exemption from requirement of a property valuation report

For the purpose of Rule 5.01A of the Listing Rules, as no single property interest that formed part of our non-property activities had a carrying amount of 15% or more of our total assets, this Prospectus is not required to include any valuation report of our property interests.

Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this Prospectus is exempted from compliance with requirements of section 342(1)(b) of the Companies (WUMP) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance, which requires a valuation report with respect to all our Group's assets in land or buildings.

9. Intellectual property rights

(a) Trademarks

As at the Latest Practicable Date, our Group has registered the following trademarks which are material to our business:

Hong Kong

No.	Trademark	Registered Owner	Class(es)	Registration number	Duration of Validity (dd/mm/yyyy)
1.	B.Duck	Semk Products	9,41,42	304852125	11/03/2019-10/03/2029
2.	B.Duck B.Duck	Semk Products	3,16,21,24,30	301919638	18/05/2011-17/05/2031
3.	B.Duck B.Duck	Semk Products	18,25	302208258	30/03/2012-29/03/2022
4.	B.Duck baby	Semk Products	44	305021162	09/08/2019-08/08/2029
5.		Semk Products	44	305021171	09/08/2019-08/08/2029
6.		Semk Products	9,41,42	304852116	11/03/2019-10/03/2029
7.		Semk Products	9,16,21,25	301779175	02/12/2010-01/12/2030

PRC

No.	Trademark	Registered Owner	Class(es)	Registration number	Duration of Validity (dd/mm/yyyy)
1.		Semk Products	9	15278592	14/10/2015-13/10/2025
2.		Semk Products	9	35233323	07/03/2020-06/03/2030
3.		Semk Products	9	8814487	21/11/2021-20/11/2031
4.		Semk Products	9	17241675	28/08/2016-27/08/2026
5.		Semk Products	9	27141713	21/10/2018-20/10/2028
6.		Semk Products	10	20221559	07/01/2018-06/01/2028
7.		Semk Products	11	47039136	28/02/2021-27/02/2031
8.		Semk Products	11	40957157	14/05/2020-13/05/2030
9.		Semk Products	11	42568920	21/09/2020-20/09/2030
10.		Semk Products	12	47059315	28/02/2021-27/02/2031
11.		Semk Products	12	20221557	28/07/2017-27/07/2027
12.		Semk Products	16	47044859	28/02/2021-27/02/2031
13.		Semk Products	16	35243413	14/03/2020-13/03/2030
14.		Semk Products	16	38320421	14/03/2020-13/03/2030

No.	Trademark	Registered Owner	Class(es)	Registration number	Duration of Validity (dd/mm/yyyy)
15.		Semk Products	16	42566155	21/09/2020-20/09/2030
16.		Semk Products	16	8814489	21/11/2021-20/11/2031
17.		Semk Products	16	27129012	07/11/2018-06/11/2028
18.		Semk Products	18	47054508	21/03/2021-20/03/2031
19.		Semk Products	18	35235772	21/05/2020-20/05/2030
20.		Semk Products	18	42586557	21/09/2020-20/09/2030
21.		Semk Products	18	10709662	21/07/2013-20/07/2023
22.		Semk Products	20	35234817	28/10/2019-27/10/2029
23.		Semk Products	20	40360012	14/08/2020-13/08/2030
24.		Semk Products	20	42582946A	21/10/2020-20/10/2030
25.		Semk Products	20	20221556	28/07/2017-27/07/2027
26.		Semk Products	21	35246277	14/03/2020-13/03/2030
27.		Semk Products	21	40353018	28/03/2020-27/03/2030
28.		Semk Products	21	42579426	21/09/2020-20/09/2030
29.		Semk Products	21	8814490	21/11/2021-20/11/2031

No.	Trademark	Registered Owner	Class(es)	Registration number	Duration of Validity (dd/mm/yyyy)
30.		Semk Products	21	27125495	07/11/2018-06/11/2028
31.		Semk Products	24	46191040	07/03/2021-06/03/2031
32.		Semk Products	24	35231158	07/11/2019-06/11/2029
33.		Semk Products	24	40352259	28/03/2020-27/03/2030
34.		Semk Products	24	42587106	21/09/2020-20/09/2030
35.		Semk Products	24	9576929	14/07/2012-13/07/2032
36.		Semk Products	25	8814488	21/11/2021-20/11/2031
37.		Semk Products	25	35225162	21/12/2020-20/12/2030
38.		Semk Products	25	17241789	28/08/2016-27/08/2026
39.		Semk Products	28	27131644A	07/12/2018-06/12/2028
40.		Semk Products	28	35235440	28/05/2020-27/05/2030
41.		Semk Products	28	42587136	28/08/2020-27/08/2030
42.		Semk Products	30	9576928	07/07/2012-06/07/2032
43.		Semk Products	30	17242016	28/03/2018-27/03/2028

No.	Trademark	Registered Owner	Class(es)	Registration number	Duration of Validity (dd/mm/yyyy)
44.		Semk Products	31	35242117	21/07/2019-20/07/2029
45.		Semk Products	31	27134324	21/10/2018-20/10/2028
46.		Semk Products	35	35244466	14/01/2021-13/01/2031
47.		Semk Products	35	10709661	21/07/2013-20/07/2023
48.		Semk Products	36	35243820	21/07/2019-20/07/2029
49.		Semk Products	36	27146780	21/10/2018-20/10/2028
50.		Semk Products	41	35234892	28/05/2020-27/05/2030
51.		Semk Products	41	15278688	14/07/2016-13/07/2026
52.		Semk Products	41	15278688A	14/11/2015-13/11/2025
53.		Semk Products	42	35234907	21/05/2020-20/05/2030
54.		Semk Products	42	27122637	28/12/2018-27/12/2028
55.		Semk Products	43	35222889	28/11/2019-27/11/2029
56.		Semk Products	43	40345155	14/06/2020-13/06/2030
57.		Semk Products	43	17044913	14/08/2016-13/08/2026
58.		Semk Products	25	37131384	14/01/2021-13/01/2031

No.	Trademark	Registered Owner	Class(es)	Registration number	Duration of Validity (dd/mm/yyyy)
59.		Semk Products	28	37111795	28/05/2020-27/05/2030
60.	B.Duck	Semk Products	3	35205000	07/11/2019-06/11/2029
61.	B.Duck	Semk Products	3	42590505	28/11/2020-27/11/2030
62.	B.Duck	Semk Products	3	27145755	28/03/2020-27/03/2030
63.	B.Duck	Semk Products	3	13555189	14/04/2015-13/04/2025
64.	B.Duck	Semk Products	3	16967680A	28/07/2016-27/07/2026
65.	B.Duck	Semk Products	5	35195755A	07/08/2020-06/08/2030
66.	B.Duck	Semk Products	5	27122849	07/01/2020-06/01/2030
67.	B.Duck	Semk Products	5	28537373	14/04/2020-13/04/2030
68.	B.Duck	Semk Products	9	32399992	28/02/2020-27/02/2030
69.	B.Duck	Semk Products	10	27125710	28/10/2019-27/10/2029
70.	B.Duck	Semk Products	11	42587724	28/12/2020-27/12/2030
71.	B.Duck	Semk Products	16	47048066	28/02/2021-27/02/2031
72.	B.Duck	Semk Products	18	42581914	21/12/2020-20/12/2030
73.	B.Duck	Semk Products	20	35193337A	14/09/2019-13/09/2029
74.	B.Duck	Semk Products	21	42586683	07/09/2020-06/09/2030
75.	B.Duck	Semk Products	21	35198403	21/05/2020-20/05/2030
76.	B.Duck	Semk Products	21	47052185	28/02/2021-27/02/2031
77.	B.Duck	Semk Products	21	9576927	28/07/2012-27/07/2032
78.	B.Duck	Semk Products	24	46191390	07/03/2021-06/03/2031

No.	Trademark	Registered Owner	Class(es)	Registration number	Duration of Validity (dd/mm/yyyy)
79.	B.Duck	Semk Products	24	9576926	14/10/2012-13/10/2022
80.	B.Duck	Semk Products	25	17241780	28/10/2016-27/10/2026
81.	B.Duck	Semk Products	25	37618882	07/02/2020-06/02/2030
82.	B.Duck	Semk Products	25	42573259	07/09/2020-06/09/2030
83.	B.Duck	Semk Products	27	35212814	21/04/2020-20/04/2030
84.	B.Duck	Semk Products	28	42580858	28/09/2020-27/09/2030
85.	B.Duck	Semk Products	28	35206931A	14/09/2019-13/09/2029
86.	B.Duck	Semk Products	28	7112927	21/10/2020-20/10/2030
87.	B.Duck	Semk Products	30	9576925	07/07/2012-06/07/2032
88.	B.Duck	Semk Products	30	17241962	07/08/2018-06/08/2028
89.	B.Duck	Semk Products	31	35215615	21/12/2020-20/12/2030
90.	B.Duck	Semk Products	31	35215615A	07/08/2020-06/08/2030
91.	B.Duck	Semk Products	35	39587753	28/04/2020-27/04/2030
92.	B.Duck	Semk Products	35	10709663	21/07/2013-20/07/2023
93.	B.Duck	Semk Products	36	35215688	14/09/2020-13/09/2030
94.	B.Duck	Semk Products	41	35215735	21/12/2020-20/12/2030
95.	B.Duck	Semk Products	41	35215735A	07/08/2020-06/08/2030
96.	B.Duck	Semk Products	41	15278756	14/10/2015-13/10/2025
97.	B.Duck	Semk Products	42	35202176A	14/09/2019-13/09/2029
98.	B.Duck	Semk Products	43	35210574	14/09/2020-13/09/2030

No.	Trademark	Registered Owner	Class(es)	Registration number	Duration of Validity (dd/mm/yyyy)
99.	B.Duck	Semk Products	43	17044858	28/07/2016-27/07/2026
100.	B.Duck	Semk Products	25	8814480	21/11/2021-20/11/2031
101.	B.Duck	Semk Products	35	39595908	28/04/2020-27/04/2030
102.	B.Duck	Semk Products	35	8814500	14/12/2021-13/12/2031
103.		Semk Products	28	37128188	21/05/2020-20/05/2030
104.		Semk Products	35	37123993	28/09/2020-27/09/2030
105.		Semk Products	11	34965994	14/03/2020-13/03/2030
106.		Semk Products	16	34971638	14/03/2020-13/03/2030
107.		Semk Products	16	42580551	21/09/2020-20/09/2030
108.		Semk Products	21	34966231	14/03/2020-13/03/2030
109.		Semk Products	24	34974590	07/11/2019-06/11/2029
110.		Semk Products	35	34978948	14/01/2021-13/01/2031
111.		Semk Products	18,21,24,35,41	19038086	07/03/2017-06/03/2027
112.	B.Duck baby	Semk Products	11	34972601A	14/10/2019-13/10/2029
113.	B.Duck baby	Semk Products	16	34966125A	14/09/2019-13/09/2029
114.	B.Duck baby	Semk Products	16	42581704	28/09/2020-27/09/2030

No.	Trademark	Registered Owner	Class(es)	Registration number	Duration of Validity (dd/mm/yyyy)
115.	B.Duck baby	Semk Products	21	34963117	21/04/2020-20/04/2030
116.	B.Duck baby	Semk Products	24	34974587A	28/09/2019-27/09/2029
117.	B.Duck baby	Semk Products	28	34969595	14/09/2020-13/09/2030
118.	B.Duck baby	Semk Products	28	42566594	07/10/2020-06/10/2030
119.	B.Duck baby	Semk Products	35	34978941	14/09/2020-13/09/2030
120.		Semk Products	25	10709658	21/07/2015-20/07/2025
121.		Semk Products	9	22811154	21/02/2018-20/02/2028
122.		Semk Products	12	22811890	21/02/2018-20/02/2028
123.		Semk Products	20	22843976	21/02/2018-20/02/2028
124.		Semk Products	21	22843917	21/02/2018-20/02/2028
125.		Semk Products	25	22843536	21/02/2018-20/02/2028
126.		Semk Products	41	46048729	07/03/2021-06/03/2031
127.		Semk Products	41	22858599	28/01/2019-27/01/2029
128.		Semk Products	43	22859742	07/11/2018-06/11/2028
129.		Semk Products	18	38546172	14/01/2021-13/01/2031

No.	Trademark	Registered Owner	Class(es)	Registration number	Duration of Validity (dd/mm/yyyy)
130.		Semk Products	25	38571851	07/03/2020-06/03/2030
131.	Buffy	Semk Products	12	22862507	14/10/2018-13/10/2028
132.	Buffy	Semk Products	18	22870823	14/02/2019-13/02/2029
133.	Buffy	Semk Products	20	22871500	28/02/2018-27/02/2028
134.	Buffy	Semk Products	21	22871426	14/02/2019-13/02/2029
135.	Buffy	Semk Products	26	22886091	14/02/2019-13/02/2029
136.	Buffy	Semk Products	27	22886407	28/02/2018-27/02/2028
137.	Buffy	Semk Products	29	22886451	28/02/2018-27/02/2028
138.	Buffy	Semk Products	30	22886691	28/02/2018-27/02/2028
139.	Buffy	Semk Products	41	22887254	28/02/2018-27/02/2028
140.	Buffy	Semk Products	43	22887263	07/03/2019-06/03/2029
141.	Buffy	Semk Products	31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45	36487122A	21/12/2019-20/12/2029

Thailand

No.	Trademark	Registered Owner	Class(es)	Registration number	Duration of Validity (dd/mm/yyyy)
1.		Semk Products	18	201121725	05/04/2019-04/04/2029
2.		Semk Products	20	201121706	05/04/2019-04/04/2029
3.		Semk Products	21	201121699	05/04/2019-04/04/2029
4.		Semk Products	24	181107330	06/01/2016-05/01/2026
5.	B.Duck	Semk Products	18	201121694	05/04/2019-04/04/2029
6.	B.Duck	Semk Products	20	201121667	05/04/2019-04/04/2029
7.	B.Duck	Semk Products	21	201121690	05/04/2019-04/04/2029
8.	B.Duck	Semk Products	24	201121731	05/04/2019-04/04/2029
9.	B.Duck	Semk Products	24	181107149	06/01/2016-05/01/2026
10.	Buffy	Semk Products	18	201121717	05/04/2019-04/04/2029
11.	Buffy	Semk Products	20	201121687	05/04/2019-04/04/2029
12.	Buffy	Semk Products	21	201121672	05/04/2019-04/04/2029
13.		Semk Products	18	201121666	05/04/2019-04/04/2029
14.		Semk Products	20	201121679	05/04/2019-04/04/2029
15.		Semk Products	21	201121683	05/04/2019-04/04/2029

Macau

No.	Trademark	Registered Owner	Class(es)	Registration number	Duration of Validity (dd/mm/yyyy)
1.		Semk Products	9	N/148237	28/05/2019-28/05/2026
2.		Semk Products	25	N/148240	28/05/2019-28/05/2026
3.		Semk Products	9	N/148231	28/05/2019-28/05/2026
4.		Semk Products	25	N/148234	28/05/2019-28/05/2026

Taiwan

No.	Trademark	Registered Owner	Class(es)	Registration number	Duration of Validity (dd/mm/yyyy)
1.		Semk Products	9	01653774	16/07/2014-15/07/2024
2.		Semk Products	25	02044453	01/03/2020-28/02/2030
3.		Semk Products	9	01653773	16/07/2014-15/07/2024
4.		Semk Products	25	02044454	01/03/2020-28/02/2030

Malaysia

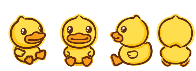
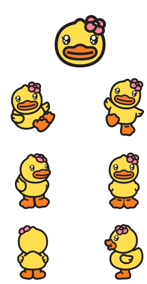
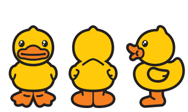
No.	Trademark	Registered Owner	Class(es)	Registration number	Duration of Validity (dd/mm/yyyy)
1.		Semk Products	21	TM2019009926	25/03/2019-25/03/2029
2.		Semk Products	21	TM2019009929	25/03/2019-25/03/2029

South Korea

No.	Trademark	Registered Owner	Class(es)	Registration number	Duration of Validity (dd/mm/yyyy)
1.	B.Duck	Semk Products	9	40-1246342	13/04/2017-13/04/2027
2.		Semk Products	9	40-1252807	15/05/2017-15/05/2027

(b) *Copyrights*

As at the Latest Practicable Date, our Group was the registered owner of the following copyrights, which are material to our business:

No.	Specification	Registered Owner	Place of registration	Registration number	Date of Registration (dd/mm/yyyy)
1.	B.Duck baby	Semk Products	PRC	粵作登字 -2016-F-00001913	09/03/2016
2.		Semk Products	PRC	粵作登字 -2016-F-00001914	09/03/2016
3.	Buffy 	Semk Products	PRC	粵作登字 -2017-F-00004435	27/02/2017
4.	BATH'N DUCK 	Semk Products	PRC	粵作登字 -2019-F-00028006	26/11/2019
5.	B.Duck	Semk Products	PRC	粵作登字 -2016-F-00001917	09/03/2016
6.		Semk Products	PRC	粵作登字 -2014-F-00000716	24/04/2014

(c) Domain Name

As at the Latest Practicable Date, our Group was the registered owner of the following registered domain names, which are material to our business:

Domain Name	Date of registration	Expiry date
b-duck.com	29/06/2010	29/06/2023
ensgm.com	26/05/2007	26/05/2023
semk.net	17/12/2001	17/12/2023

10. Agency fees or commissions received

Save as disclosed in "Underwriting — The International Offering — Commission and expenses" in this Prospectus, and in "D. Other Information — 20. Sole Sponsor" in this Appendix, none of our Directors or the experts named in the paragraph headed "D. Other Information — 26. Consents" in this Appendix had received any agency fee or commissions from our Group within the two years preceding the date of this Prospectus.

11. Connected transactions and related parties transactions

Save as disclosed in the sections "Relationship with our Controlling Shareholders" and "Connected Transactions" and in note 29 to the Accountants' Report, the text of which is set out in Appendix I to this Prospectus, during the two years immediately preceding the date of this Prospectus, our Company has not engaged in any other material connected transactions or related parties transactions.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

12. Directors

(a) Particulars of Directors' service contracts

Executive Directors

Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date (subject to termination in certain circumstances as stipulated in the relevant service contract). Each of our Executive Directors is entitled to their respective basic salaries set out below.

The current basic annual salaries of our executive Directors to their respective executive and management roles in our Group are as follows:

Name	**Approximate annual salary** *(HK$)*
Mr. Hui	1,380,000
Mr. Kwok Chun Kit	1,280,000
Mr. Cheung Chin Yiu	790,000
Mr. Tse Tsz Leong	1,250,000

Non-executive Directors and Independent Non-executive Directors

Each of our non-executive Directors and our independent non-executive Directors has been appointed for an initial term of three years commencing from the Listing Date (subject to termination in certain circumstances as stipulated in the relevant letter of appointment). The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors and removal and retirement by rotation of Directors. Each of our non-executive Directors is not entitled to a director's fee and each of our independent non-executive Directors is entitled to a director's fee of HK$180,000 per annum. Save for directors' fee, none of our non-executive Directors and independent non-executive Directors is expected to receive any other remuneration for holding their office as a non-executive Director or independent non-executive Director.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(b) Directors remuneration

(i) The aggregate emoluments paid (including salaries, contribution to pension schemes, allowance (inclusive of housing benefit)), and benefits in kind granted by our Group to our Directors (in their role as senior management and employee before their appointment as directors respectively) in respect of the three financial years ended 31 December 2020 and six months ended 30 June 2021 were approximately HK$5.2 million, HK$5.5 million, HK$5.0 million and HK$3.2million, respectively.

(ii) Under the arrangements currently in force, the aggregate emoluments (including salaries, contribution to pension schemes, allowance (inclusive of housing benefit) but excluding performance bonuses and discretionary bonuses) payable by our Group to, and benefits in kind receivable by our Directors (including the non-executive Directors and the independent non-executive Directors in their respective capacity as Directors) for the year ending 31 December 2021 are expected to be approximately HK$4.8 million.

(iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for the three years ended 31 December 2020 and six months ended 30 June 2021 (i) as an inducement to join or upon joining our Group or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

(iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for the three years ended 31 December 2020 and six months ended 30 June 2021.

(c) Interests and short positions of our Directors and chief executive in the shares, underlying shares or debentures of our Company and its associated corporations following the Global Offering

Immediately following completion of the Share Subdivision, the Capitalisation Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers, once the Shares are listed, will be as follows:

Name of Director/ chief executive	**Name of Group member/associated corporation**	**Nature of interest**	**Number of and class of securities held immediately after completion of the Global Offering, the Share Subdivision and the Capitalisation Issue** *(Note 1)*	**Approximate percentage of shareholding interest immediately after completion of the Global Offering, the Share Subdivision and the Capitalisation Issue** *(Note 2)*
Mr. Hui	Our Company	Interest of a controlled corporation *(Note 3)*	663,200,000 Shares (L)	66.32%
	Semk Global	Interest of a controlled corporation *(Note 3)*	663,200,000 Shares (L)	66.32%
	Semk Holdings	Beneficial owner *(Note 3)*	663,200,000 Shares (L)	66.32%

Notes:

1. The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Shares.

2. The calculation is based on the total number of 1,000,000,000 Shares in issue after completion of the Global Offering.

3. Mr. Hui is the sole beneficial owner of Semk Holdings which in turn wholly-owns Semk Global. He will be deemed, upon Listing, by virtue of the SFO to be interested in the entirety of 663,200,000 Shares owned by Semk Global immediately following completion of the Global Offering, the Share Subdivision and the Capitalisation Issue.

13. Interest and/or short positions discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

Save as disclosed in "Substantial Shareholders" in this Prospectus, our Directors and chief executive of our Company are not aware of any person who will, immediately following completion of the Share Subdivision, the Capitalisation Issue and the Global Offering (but without taking account of any Shares which may be taken up or acquired under the Global Offering and any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), other than a Director or chief executive of our Company whose interests are disclosed under the paragraph "C. Further information about Our Directors and Substantial Shareholders — 12. Directors" above, which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

14. Disclaimers

Save as disclosed in "C. Further information about our Directors and substantial Shareholders — 12. Directors – (c) Interests and short positions of our Directors and chief executive in the shares, underlying shares or debentures of our Company and its associated corporations following the Global Offering" above and "Substantial Shareholders" in this Prospectus:

(a) and taking no account of any Shares which may be taken up or acquired under the Global Offering, the Over-allotment Option and any options which may be granted under the Share Option Scheme, our Directors are not aware of any person (not being a Director or chief executive of our Company) who immediately following the completion of the Share Subdivision, the Capitalisation Issue and the Global Offering will have an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will, either directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;

(b) none of our Directors or the chief executives of our Company has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required, pursuant to Model Code for Securities Transactions by Directors and Listed Companies, to be notified to our Company and the Stock Exchange, in each case once the Shares are listed;

(c) none of our Directors nor any of the parties listed in the paragraph "25. Qualifications of experts" below has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this Prospectus, acquired or disposed of by or leased to our Company or any of the subsidiaries of our Company, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;

(d) none of our Directors nor any of the parties listed in the paragraph "25. Qualifications of experts" below is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to business of our Group;

(e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph "25. Qualifications of experts" below:

(i) is interested legally or beneficially in any securities of any member of our Group; or

(ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and

(f) none of our Directors, their respective close associates or Shareholders of our Company is interested in more than 5% of the issued share capital of our Company has any interests in the five largest suppliers and/or customers.

D. OTHER INFORMATION

15. Share Option Scheme

The following is a summary of the principal terms of our Share Option Scheme, conditionally adopted by a resolution of our Shareholders passed on 20 December 2021 and a resolution of our Board on 15 December 2021. The terms of our Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

(a) Purpose of our Share Option Scheme

The purpose of our Share Option Scheme is to recognise and acknowledge the contributions made by our employees, to attract skilled and experienced personnel, to incentivise them to stay with our Company and to motivate them to strive for the future development and expansion of our Company and its subsidiaries, by providing them with the opportunity to acquire equity interests in our Company.

(b) Participants of our Share Option Scheme and the basis of determining the eligibility of the participants

Our Board may from time to time grant options to any individual who is an employee of our Group (including executive Directors) or any entity in which our Company holds any equity interest (the "**Invested Entity**") and such other persons who has or will contribute to our Company as approved by our Board from time to time (the "**Participants**") on the basis of their contribution to the development and growth of our Group.

(c) Status of our Share Option Scheme

(i) Conditions of our Share Option Scheme

Our Share Option Scheme shall take effect subject to: (i) the commencement of dealings in our Shares on the Stock Exchange; (ii) the passing of the necessary resolutions to adopt our Share Option Scheme by our Shareholders; (iii) the obligations of the underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms thereof or otherwise; and (iv) the Listing Division approving the listing of and permission to deal in any Shares to be allotted and issued pursuant to the exercise of options under our Share Option Scheme (the "**Conditions**").

(ii) Life of our Share Option Scheme

Our Share Option Scheme shall be valid and effective for ten years from the date on which the last of the Conditions is fulfilled (the "**Scheme Period**"), after which time no further option will be granted but the provisions of our Share Option Scheme shall remain in full force and effect in all other respects. The total number of Shares that may be allotted and issued upon the exercise of all options to be granted under our Share Option Scheme initially must not in aggregate exceed the number of shares in issue (without taking into account shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option) as at the Listing Date.

(d) Grant of options

(i) Making of an offer

An offer of the grant of an option shall be made to a Participant by letter (the "**Offer Letter**") in such form as our Board may from time to time determine, requiring the Participant to undertake to hold the option on the terms on which it is to be granted (which may include a minimum period for which the option must be held before it can be exercised and a performance target that must be reached before the option can be exercised in whole or in part) and to be bound by the provisions of our Share Option Scheme (including any operational rules made under our Share Option Scheme). The offer shall remain open for acceptance for such time to be determined by our Board provided that no such offer shall be open for acceptance after the expiry of the Scheme Period or after the termination of our Share Option Scheme.

(ii) Acceptance of an offer

An option shall be deemed to have been granted to (subject to certain restrictions in our Share Option Scheme), and accepted by, the Participant (the "**Grantee**") and to have taken effect after we receive the Offer Letter signed by the Grantee together with a remittance in favour of our Company of HK$1.00 or the equivalent amount in any currency by way of consideration for the grant of the option on or before the last day for acceptance as defined by our Board. The remittance is not in any circumstances refundable. Once accepted, the option is granted as from the date on which it was offered to the relevant Grantee.

(iii) Restrictions on time of grant

No grant of options shall be made after an inside information in relation to the securities of our Company has occurred or an inside information matter in relation to the securities of our Company has been the subject of a decision, until that inside information has been announced pursuant to the requirements of the Listing Rules. In particular, no option shall be granted during the period of one month immediately preceding the earlier of:

(1) the date of our Board meeting as shall have been notified to the Stock Exchange for the approval of our Company's results for any year, half-year or quarterly or any other interim period (whether or not required under the Listing Rules);

(2) the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules or quarterly or other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement. The period during which no option may be granted will cover any period of delay in the publication of a results announcement; and

Further to the restrictions in paragraph (i) above, no option may be granted to a Director on any day on which financial results of our Company are published:

(1) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

(2) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(iv) Grant to connected persons

Any grant of options to a connected person must be approved by all our independent non-executive Directors (excluding any independent non-executive Director who is a proposed Grantee of the options).

(v) Grant to substantial shareholders and independent non-executive Directors

Without prejudice to paragraph d(iv) above, any grant of options to a substantial Shareholder or an independent non-executive Director or any of their respective associates must be approved by our Shareholders in general meeting if our Shares issued and to be issued and to be issued upon exercise of all options already granted and proposed to be granted to him (whether exercised, cancelled or outstanding) in the 12-month period up to and including the proposed date of such grant:

(1) would represent in aggregate more than 0.1% of our Shares then in issue; and

(2) would have an aggregate value, based on the closing price of our Shares at the date of each grant, in excess of HK$5 million (or such other amount as shall be permissible under the Listing Rules from time to time).

(vi) Proceedings in general meeting to approve the grant of option

At the general meeting to approve the proposed grant of options under paragraph d(v) above, the grantee, his associates and all core connected persons of our Company must abstain from voting unless intending to vote against the proposed grant. At such general meeting, the vote to approve the grant of such options must be taken on a poll in accordance with the relevant provisions of the Listing Rules.

(e) Subscription price

The price per Share at which a Grantee may subscribe for Shares upon exercise of an option (the "**Subscription Price**") shall, subject to any adjustment pursuant to paragraph (g) below, be a price determined by our Board in its sole and absolute discretion but in any event shall be at least the highest of:

(i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheets on the date on which the option is offered, which must be a business day (the "**Offer Date**");

(ii) the average of the closing prices of our Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and

(iii) the par value of our Shares, except that for the purposes of calculating the Subscription Price under paragraph e(ii) above for an option offered within five business days of the Listing Date, the price at which our Shares are to be offered for subscription pursuant to the Global Offering shall be used as the closing price for any business day falling within the period before the Listing Date.

(f) Maximum number of Shares available for subscription

(i) Scheme Mandate

Subject to sub-paragraphs f(ii) and f(iii) below, the maximum number of Shares in respect of which options may be granted under our Share Option Scheme and any other share option schemes of our Company shall not in aggregate exceed the number of shares that shall represent 10% of the total number of Shares in issue (without taking into account shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option) as at the Listing Date (the "**Scheme Mandate**") being 100,000,000 Shares. For the purpose of calculating the Scheme Mandate, options which have lapsed in accordance with the terms of the relevant scheme shall not be counted in calculating the 10% limit.

(ii) Renewal of Scheme Mandate

Our Company may seek approval by our Shareholders in general meeting for renewing or increasing the Scheme Mandate provided that the total number of Shares in respect of which options may be granted under our Share Option Scheme and any other schemes of our Company under the Scheme Mandate as renewed must not exceed 10% of the total number of Shares in issue as at the date of our Shareholders' approval. Options previously granted under our Share Option Scheme and any other Share Option Schemes of our Company, whether outstanding, cancelled, lapsed in accordance with its applicable rules or already exercised, will not be counted for the purpose of calculating the limit as renewed.

For the purpose of seeking the approval of our Shareholders under this sub-paragraph f(ii), a circular containing the information required under Rule 17.02(2)–(4) and 2.07 of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules must be sent to our Shareholders.

(iii) Grant of options beyond Scheme Mandate

Our Company may seek separate approval by our Shareholders in general meeting for granting options beyond the Scheme Mandate provided that the options in excess of the Scheme Mandate are granted only to Participants who are specifically identified before such approval is sought.

For the purpose of seeking the approval of our Shareholders under this sub-paragraph f(iii), our Company must send a circular to our Shareholders containing a generic description of the specified Grantees who may be granted such options, the number and terms of the options to be granted, the purpose of granting such options to the Grantees with an explanation as to how the terms of options serve such purpose and the information required under Rule 17.02(2)–(4) and 2.07 of the Listing Rules and the disclaimer as required under Rule 17.02(4) of the Listing Rules.

(iv) Maximum number of Shares issued pursuant to Options

Notwithstanding anything to the contrary in our Share Option Scheme, the maximum limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under our Share Option Scheme and any other schemes of our Company must not exceed such number of Shares as shall represent 30% of our Shares in issue from time to time. No options may be granted if such grant will result in this 30% limit being exceeded.

(v) Grantee's maximum holding

Unless approved by our Shareholders in general meeting in the manner prescribed in the Listing Rules, our Board shall not grant options to any Grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that Grantee on exercise of his options during any 12-month period exceeding 1% of the total Shares then in issue.

Where any further grant of options to a Grantee, if exercised in full, would result in the total number of Shares already issued or to be issued upon exercise of all options granted and to be granted to such Grantee (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such further grant exceeding 1% of the total number of Shares in issue, such further grant must be separately approved by our Shareholders in general meeting with such Grantee and his close associates (or his associates if the Grantee is a connected person) abstaining from voting. Our Company must send a circular to our Shareholders and the circular must disclose the identity of the Grantee, the number and terms of the options to be granted and options previously granted to such Grantee and the information required under the Listing Rules. The number and terms (including the Subscription Price) of the options to be granted to such Participant must be fixed before our Shareholders' approval. The date of our Board meeting for proposing such further grant of option should be taken as the date of grant for the purpose of calculating the Subscription Price.

(vi) Adjustment

The number of Shares subject to the options issued pursuant to our Share Option Scheme may be adjusted in such manner as our Company's independent financial adviser or auditor (acting as expert and not as arbitrator) shall certify in writing to our Board to be in its opinion fair and reasonable in accordance with sub-paragraph g(ii) below.

(g) Reorganisation of capital structure

(i) Adjustment of options

In the event of any alteration in the capital structure of our Company whilst any option becomes or remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which our Company is a party), our Board shall make (and shall notify to the Grantee) such corresponding alterations (if any) to:

(1) the number of Shares subject to the option so far as unexercised; and/or

(2) the Subscription Price,

in compliance with the relevant provisions of the Listing Rules (or any guideline or supplementary guideline as may be issued by the Stock Exchange from time to time, provided that any such alteration shall give a Grantee as near as possible the same proportion of the issued share capital of our Company as (but in any event shall not be greater than) that to which he was previously entitled and any such adjustments shall be made on the basis that the aggregate Subscription Price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than, except upon any consolidation of the Shares pursuant to this paragraph g) it was before such event, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

(ii) Auditors/independent financial adviser confirmation

On any capital reorganisation other than a capitalisation issue, the auditors or an independent financial adviser shall certify in writing to our Board that the adjustments made by our Board pursuant to sub-paragraph g(i) above are in their opinion fair and reasonable.

(h) Cancellation of options

Subject to the consent from the relevant Grantee, our Board may at its discretion cancel options previously granted to and yet to be exercised by a Grantee for the purpose of re-issuing new options to that Grantee provided that there are sufficient available unissued options under the Scheme Mandate as renewed from time to time (excluding such cancelled options) in accordance with the terms of our Share Option Scheme.

(i) Assignment of options

An option is personal to the Grantee and shall not be transferable or assignable.

(j) Options attached to our Shares

Our Shares to be allotted upon exercise of an option will be subject to all the provisions of our Articles of Association and will rank *pari passu* with the fully paid Shares in issue as from the day when the name of the Grantee is registered on the register of members of our Company (the "**Registration Date**"). Accordingly our Shares will entitle the holders to participate in all dividends or other distributions paid or made on or after the Registration Date other than any dividends or other distributions previously declared or recommended or resolved to be paid or made with respect to a record date which is before the Registration Date.

A Share issued upon the exercise of an option shall not carry any voting rights until the registration of the Grantee or his nominee as the holder of the Share on the register of members of our Company.

Unless otherwise regulated by applicable laws, a Grantee shall have no rights as Shareholder with respect to any Shares covered by an option before such Grantee exercises the option.

(k) Exercise of options

(i) General

The period during which an option may be exercised in accordance with the terms of our Share Option Scheme (the "**Option Period**") shall be the period of time to be notified by our Board to each Grantee, which our Board may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the Offer Date.

(ii) Rights of Grantee upon his retirement or death

If the Grantee ceases to be a Participant by reason of retirement, death or disability, the option shall vest immediately at the date of cessation and the Grantee or his legal personal representative shall be entitled within a period of 12 months from the date of retirement or death (or within such longer period as our Board may determine) to exercise the option (to the extent not already exercised).

(iii) Rights of Grantee upon his cessation of employment under certain circumstances

In the Grantee ceases to be a Participant for any reason other than his retirement or death or disability or termination of his employment on one or more of the grounds specified in sub-paragraph l(iv) below or the termination of his business relation with the relevant member of our Group, the Grantee may exercise the option up to his or her entitlement at the date of cessation.

(iv) Rights on a takeover

In the event a general or partial offer, whether by way of take-over offer, or a take-over by way of a scheme of arrangement or otherwise in like manner, is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror and the take-over offer becomes or is declared unconditional, the grantee shall be entitled to exercise the option (to the extent not already exercised), within one month from the date the take-over offer is declared unconditional.

(v) Rights on a voluntary winding up

In the event of a notice is given by our Company to our Shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each of our Shareholders give notice to all Grantees (together with a notice of the existence of the provisions of this sub-paragraph k(v)). Upon receipt of such notice, each Grantee (or where permitted under sub-paragraph k(ii) above his legal personal representative(s)) shall be entitled to exercise all or any of the option (to the extent which has become exercisable and not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate Subscription Price for our Shares in respect of which the notice is given. Upon receipt of such notice together with the remittance by our Company, our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid. The allotted Shares shall rank *pari passu* with all other Shares in issue on the date prior to the passing of the resolution to wind-up our Company to participate in the distribution of assets of our Company available in liquidation.

(vi) Rights on a compromise or arrangement

If a compromise or arrangement between our Company and our Shareholders or creditors is proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, our Company shall give notice to the Grantee on the same day as it gives notice of the meeting to our Shareholders or creditors to consider the compromise or arrangement. Upon receipt of the notice, the Grantee may, during the period commencing on the date of the notice and ending on the earlier of:

(a) the date two calendar months thereafter; and

(b) the date on which such compromise or arrangement is sanctioned by the court,

exercise the option (to the extent not already exercised), conditional upon the compromise or arrangement being sanctioned by the court and becoming effective. With effect from the date of such meeting, the rights of all Grantees to exercise their respective options shall forthwith be suspended. Our Company may require the Grantee to transfer or otherwise deal with our Shares issued as a result of the exercise of options in these circumstances so as to place the Grantee in the same position as nearly as would have been the case had such Shares been subject to the compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court) the rights of Grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full and shall thereupon become exercisable (but subject to the other terms of this Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any Grantee as a result of the aforesaid suspension.

(l) Lapse of options

An option where vested or unvested shall lapse automatically (to the extent not already exercised) on the earliest of:

(i) the expiry of the Option Period;

(ii) the expiry of the periods referred to in sub-paragraphs k(i) to (vi) above;

(iii) in respect of a Grantee (being a Director or employee of our Group or Invested Entity) who ceases to be engaged by our Group or the Invested Entity by reasons other than termination of employment on grounds under paragraph l(iv) below, the last date on which such Grantee was at work with our Group or the Invested Entity (whether salary is paid in lieu of notice or not);

(iv) the date on which the Grantee (being a Director or employee of our Group or Invested Entity) ceases to be a Participant by reason of the termination of his employment on any one or more of the following grounds:

(1) that he has been guilty of misconduct; or

(2) that he has committed an act of bankruptcy or has become insolvent or has made an arrangement or composition with creditors generally; or

(3) that he has been convicted of a criminal offence involving his integrity or honesty; or

(4) any misconduct based on the sole and absolute option of our Company; or

(5) and a resolution of our Board or our board of directors of the relevant subsidiary of our Company to the effect that the employment of a Grantee has or has not been terminated on one or more of the grounds specified in this sub-paragraph l(iv) shall be conclusive;

(v) in the event of the Grantee not being a Director or employee of our Group or invested Entity, the date on which our Board in its sole and absolute discretion resolves that such Grantee ceases to be qualified as a Participant by reason of termination of its business relations with the relevant member of our Group or by reason of its failure to comply with the provisions of the relevant contracts or agreements and/or its breaches of its fiduciary duties under common law or otherwise on other grounds as our Board considers appropriate;

(vi) the date on which the Grantee commits a breach of paragraph i above;

(vii) if an option is granted subject to certain conditions, restrictions or limitations, the date on which our Board resolves that the Grantee has failed to satisfy or comply with such conditions, restrictions or limitations; and

(viii) the occurrence of such event or expiry of such period as may have been specifically provided for in the Offer Letter, if any.

(m) Amendment of our Share Option Scheme

The specific provisions of our Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of Participants, and changes to the authority of our Board in relation to any alteration of the terms of our Share Option Scheme shall not be made, in either case, without the prior approval of Shareholders in general meeting. Any alterations to the terms and conditions of our Share Option Scheme which are of material nature, or any change to the terms of options granted, must also, to be effective, be approved by our Shareholders in general meeting, except where alterations take effect automatically under the existing terms of our Share Option Scheme. Our Share Option Scheme so altered must comply with Chapter 17 of the Listing Rules.

(n) Termination

Our Company may at any time terminate the operation of our Share Option Scheme by resolution of our Board or resolution of our Shareholders in general meeting and in such event no further options will be offered but the provisions of our Share Option Scheme shall remain in force in all other respects to the extent necessary to give effect to the exercise of the options (to the extent not already exercised) granted prior to the termination or otherwise or may be required in accordance with the provisions of our Share Option Scheme. All options granted prior to the termination and yet to be exercised shall continue to be valid and exercisable in accordance with the terms of our Share Option Scheme.

As at the Latest Practicable Date, no option has been granted by our Company under our Share Option Scheme.

16. Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong, pursuant to which estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose death occur on or after 11 February 2006.

17. Stamp Duty

Dealings in the Shares will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.13% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. In other words, a total stamp duty of 0.26% is currently payable on a typical sale and purchase transaction involving the Shares.

18. Tax and other indemnities

Each of our Controlling Shareholders (collectively, the "**Indemnifiers**") has entered into the Deed of Indemnity (being one of the material contract referred to in "B. Further information about our business — 7. Summary of material contracts — the Deed of Indemnity" of this Appendix) with and in favour of our Company (for itself and as trustee for each of our present subsidiaries) to provide indemnities on a joint and several basis in respect of, among other matters:

(a) any tax (which includes estate duty) liabilities in whatever part of the world which might be payable by any member of our Group in respect of any income, profits, gains transactions, events, matters or things earned, accrued, received or entered into or deemed to have been earned, accrued, received or entered into, or occurring, or as a consequence of any event which occurred on or up to the date on which the Global Offering becomes unconditional and dealings in Shares first commence on the Stock Exchange (the "**Effective Date**"), save for any taxation the extent that:

(i) full provision has been made for such taxation in the audited accounts of our Group for the three years ended 31 December 2020 and six months ended 30 June 2021 (the "**Accounts**") as set out in Appendix I to the prospectus and to the extent that such taxation is incurred or accrued since 1 July 2021 which arises in the ordinary course of business of our Group as described in "Business" in this Prospectus;

(ii) falling on any member of our Group on or after 1 July 2021, unless the liability for such taxation would not have arisen but for any act or omission of, or delay by, or transactions voluntarily effected by any member of our Group (whether alone or in conjunction with some other act, omission, delay or transaction, whenever occurring) other than in the ordinary course of its business or in the ordinary course of acquiring or disposing of capital assets or pursuant to a legally binding commitment created before 1 July 2021;

(iii) such taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Inland Revenue Department of Hong Kong or any other relevant authority (whether in Hong Kong, the PRC, the Cayman Islands, Macau or any other part of the world) coming into force after the Effective Date or to the extent such taxation claim arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect;

(iv) any provisions or reserve made for taxation in the Accounts which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied pursuant to the deed of indemnity to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter; and

(b) any fines, penalties, administrative or other charges, levies, payments, orders, eviction or restraint from use of any property owned or leased by any member of our Group which may be imposed on any member of our Group in relation to events occurred on or before the Effective Date, or any damages, losses, liabilities, claims, expenses and costs (including all costs for relocation of any member of our Group and its assets from any property owned, leased occupied or used by any member of our Group in case of it being subject to any eviction or restraint from use of such property), or damages, liabilities, claims, losses (including loss of profits or benefits) incurred or suffered by any member of our Group directly or indirectly arising from or in connection with any possible or alleged violation or non-compliance with the applicable laws, rules or regulations of Hong Kong on all matters on or before the Effective Date and in connection with any property owned, leased, occupied or used by any member of our Group before the Effective Date; and

(c) any depletion in or reduction in value of its assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages or other liabilities which any member of our Group may incur or suffer arising from or in connection with the implementation of the Reorganisation; and

(d) any losses, costs, expenses, damages or other liabilities which any member of our Group may incur or suffer arising out of or in connection with the Adverse Proceedings.

We have been advised that no material liability for estate duty is likely to fall on us and that the Cayman Islands currently have no estate duty, inheritance tax or gift tax.

19. Litigation

As at the Latest Practicable Date, to the best of knowledge of our Directors, no member of our Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened against any member of our Group that could have a material adverse effect on our business, financial conditions or results of operations.

20. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Division for listing of and permission to deal in the Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme.

The Sole Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under the Listing Rules.

The fee payable by our Company to the Sole Sponsor to act as sponsor in relation to the Listing is HK$5.5 million, and the Sole Sponsor will be reimbursed for their expenses properly incurred in connection with the Global Offering.

21. Application for listing of Shares

The Sole Sponsor has made an application on behalf of our Company to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this Prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, being up to 10% of the Shares in issue on the Listing Date, on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

22. Compliance adviser

In accordance with the requirements of the Listing Rules, our Company has appointed China Everbright Capital Limited as compliance adviser to provide advisory services to our Company to ensure compliance with the Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date or until the agreement is terminated, whichever is the earlier.

23. Preliminary Expenses

Our preliminary expenses are approximately US$6,000 and were paid by our Company.

24. Promoter

The Company has no promoter for the purpose of the Listing Rules. Within the two years immediately preceding the date of this Prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this Prospectus.

25. Qualifications of Experts

The qualifications of the experts (as defined under the Listing Rules and the Companies Ordinance) who have given their opinions or advice in this Prospectus are as follows:

Name	Qualifications
China Everbright Capital Limited	A corporation licensed under the SFO and permitted to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
PricewaterhouseCoopers	Certified public accountants under Professional Accountants Ordinance (Cap. 50) Registered Public Interest Entity Auditor under Financial Reporting Ordinance (Cap. 588)
Maples and Calder (Hong Kong) LLP	Cayman Islands and BVI legal advisers
Beijing Zhong Lun Law Firm (Shenzhen Office)	Legal advisers as to PRC laws
Guangdong Team Source Law Firm	Legal advisers as to PRC IP laws
Hogan Lovells	Legal advisers as to Hong Kong IP laws
Chungs Lawyers in association with DeHeng Law Offices	Legal advisers as to Hong Kong laws in respect of certain litigation matters
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant
PricewaterhouseCoopers Consultants (Shenzhen) Limited	Tax consultant

26. Consents

Each of experts named in "D. Other Information — 25. Qualifications of Experts" in this Appendix has given and has not withdrawn its respective written consents to the issue of this Prospectus with the inclusion of their reports and/or letters and/or opinion and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

27. Binding Effect

This Prospectus shall have the effect, if an application is made in pursuant hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

28. Miscellaneous

(a) Within the two years immediately preceding the date of this Prospectus:

(i) save as disclosed in "History, Corporate Structure and Reorganisation — Reorganisation" in this Prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no founders or management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;

(iv) save as disclosed in "Underwriting — The International Offering — Commissions and Expenses" in this Prospectus, no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and

(v) save as disclosed in "Underwriting — The International Offering — Commissions and Expenses" in this Prospectus, no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries.

(b) Our Directors confirm that:

(i) there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2021 (being the date to which the latest audited consolidated financial statements of our Group were prepared);

(ii) there is no arrangement under which future dividends are waived or agreed to be waived; and

(iii) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this Prospectus.

(c) The principal register of members of our Company will be maintained in the Cayman Islands by Maples Fund Services (Cayman) Limited and a Hong Kong register of members of our Company will be maintained in Hong Kong by Boardroom Share Registrars (HK) Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong branch share registrar and may not be lodged in the Cayman Islands.

(d) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.

(e) No company within our Group is presently listed on any stock exchange or traded on any trading system.

(f) Our Directors have been advised that, under the Cayman Companies Act, the use of a Chinese name by the Company for identification purposes only does not contravene the Cayman Companies Act.

(g) The English and Chinese language versions of this Prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption from Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this Prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

(a) a copy of GREEN Application Form;

(b) a copy of each of the material contracts referred to in "Statutory and General Information — B. Further information about our business — 7. Summary of material contracts" in Appendix IV to this Prospectus; and

(c) the written consents referred to in "Statutory and General Information — D. Other Information — 26. Consents" in Appendix IV to this Prospectus.

B. DOCUMENTS ON DISPLAY

The following documents will be published on the websites of the Stock Exchange at **www.hkexnews.hk** and our website at **www.semk.net** up to and including the date which is 14 days from the date of this Prospectus:

(a) the Memorandum of Association;

(b) the Articles of Association;

(c) the Accountant's Report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this Prospectus;

(d) the audited consolidated financial statements of our Group for each of the three financial years ended 31 December 2020 and six months ended 30 June 2021;

(e) the report on the unaudited pro forma financial information of our Group from PricewaterhouseCoopers, the text of which is set out in Appendix II to this Prospectus;

(f) the letter prepared by Maples and Calder (Hong Kong) LLP summarising certain aspects of the Cayman Islands companies law as referred to in Appendix III to this Prospectus;

(g) the Cayman Companies Act;

(h) the legal opinions prepared by Beijing Zhong Lun Law Firm (Shenzhen Office), our legal advisers on PRC law, in respect of certain aspects of our Group and summary of PRC laws and regulations relating to our Group;

(i) the legal opinions prepared by Guangdong Team Source Law Firm, our legal advisers on PRC IP law, in respect of certain PRC IP laws and regulations relating to our Group;

(j) the legal opinion prepared by Hogan Lovells, our legal advisers on Hong Kong IP law, in respect of certain matters relating to Hong Kong IP laws;

(k) the legal opinion prepared by Maples and Calder (Hong Kong) LLP, our legal advisers on BVI law, in respect of certain BVI laws and regulations relating to distribution of dividend;

(l) the legal opinion prepared by Chungs Lawyers in association with DeHeng Law Offices, our legal advisers as to Hong Kong laws in respect of certain litigation matters;

(m) the Frost & Sullivan Report;

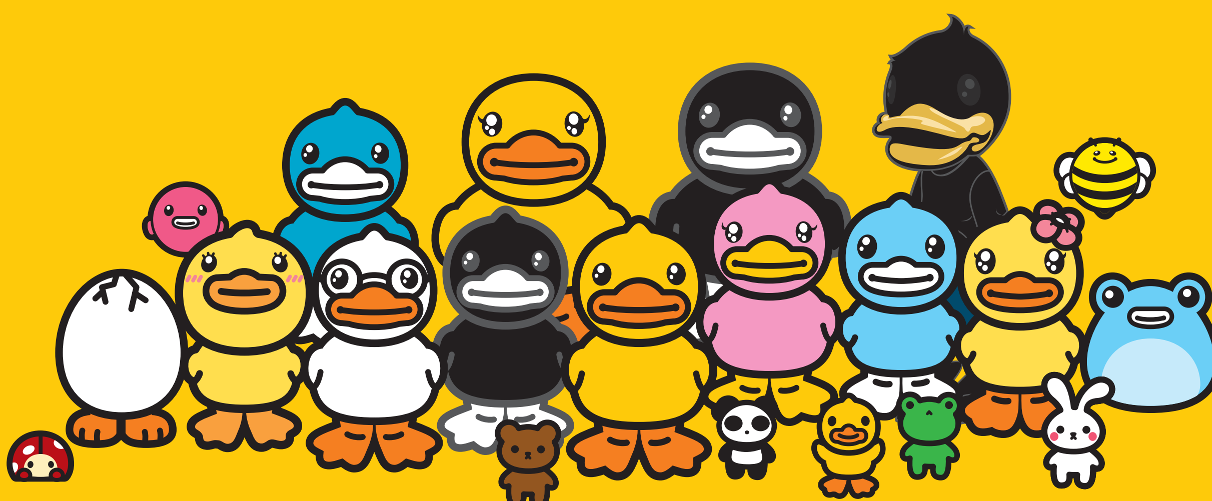
(n) the transfer pricing report issued by PricewaterhouseCoopers Consultants (Shenzhen) Limited in respect of the transfer pricing arrangement of our Group;

(o) the service contracts referred to in "Statutory and General Information — C. Further information about our Directors and substantial Shareholders — 12. Directors — (a) Particulars of Directors' service contracts" in Appendix IV to this Prospectus;

(p) the material contracts referred to in "Statutory and General Information — B. Further information about our business — 7. Summary of material contracts" in Appendix IV to this Prospectus;

(q) the written consents referred to in "Statutory and General Information — D. Other information — 26. Consents" in Appendix IV to this Prospectus; and

(r) the rules of the Share Option Scheme referred to in "Statutory and General Information — D. Other Information — 15. Share Option Scheme" in Appendix IV to this Prospectus.



B.Duck™