OVERVIEW

The Group is an apparel supply chain management services provider. Headquartered in Hong Kong, the Group principally sells knitwear products predominately in the Japan market. The Group provides one-stop apparel supply chain management solutions for its customers ranging from fashion trend analysis, product design and development, sourcing and procurement of materials, production management, quality control and logistics services. The Group's customers are mainly owners or sourcing agents of apparel retail brands based in Japan, which products are marketed and sold under their own brands. Mr. Chan, an executive Director, the chairman of the Board and the chief executive officer of the Company, has over 25 years of experience in apparel market and was dispatched to Japan from March 1993 to February 1994 before joining the Group. Mr. Chan together with some of the Group's senior management and merchandising team members are proficient in or have knowledge of Japanese, which enables the Group to communicate well with the customers and brand owners from Japan.

During the Track Record Period, the Group's revenue was mainly derived from the sales of knitwear products such as pullovers, cardigans, vests and skirts with the provision of apparel supply chain management services to its customers. The following table sets out a breakdown of the Group's revenue by types of knitwear products during the Track Record Period:

	For the year ended 31 March				For the four months ended 31 July			
	2015		2016		2015		2016	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000 (unaudited)*	*%*	*HK$'000*	*%*
Pullovers	242,869	61.0	293,749	67.5	37,703	56.3	61,249	62.2
Cardigans	137,239	34.5	129,709	29.8	27,877	41.7	35,446	36.0
Other knitwear products *(Note)*	17,860	4.5	11,748	2.7	1,339	2.0	1,730	1.8
	397,968	100	435,206	100.0	66,919	100.0	98,425	100.0

Note: Other knitwear products comprise vests, skirts, dresses, overalls, pants, ponchos, jackets, neck warmers and scarfs.

Majority of the Group's products were sold to customers in Japan, amounted to approximately HK$367.3 million, HK$390.8 million and HK$94.7 million for each of the Track Record Period, which accounted for approximately 92.3%, 89.8% and 96.2% of the Group's total revenue, respectively. The Group does not possess its own labels. All the Group's knitwear products are manufactured in accordance with the specifications and requirements set out by the Group's customers in the sales orders, some designs of which are recommended or inspired by the Group.

Through collaboration with its customers, the Group leverages its extensive knitwear fashion exposure and experience to accommodate their needs (including design preferences, knitwear styles and application of materials) in view of market trends. At the start of two main fashion seasons (i.e. spring/summer and autumn/winter) and from time to time, the Group will in-advance provide and recommend new product designs and inspirations to its customers based on the upcoming fashion trends through presentations and face-to-face meetings. During the Track Record Period, the design and promotion department formulated or developed over 100 new knitwear designs in each main fashion season. According to the feedback from the customers, the Group then modifies the product design and specifications in respect of colour tone, selection of raw materials and styling. Alternatively, the customers may provide their own designs to the Group. As part of the apparel supply chain management services, the Group suggests types of yarn to be used in the knitwear designs provided by the Group or the customers' own designs. The Group also provides the products samples, which are produced by the third-party manufacturers, for the customers' consideration. The purchase orders will be placed in bulk once all the production details including but not limited to the production schedule, production specifications and other specific requirements are confirmed by the customers.

During the Track Record Period, all of the knitwear products were produced by the third-party manufacturers engaged by the Group. The Group has maintained an established relationship with a number of third-party manufacturers and implemented quality control procedures throughout the production process. The Group's merchandising department closely follows up with and provides technical advice to the third-party manufacturers at various stages of the production processes. To ensure that the quality of the knitwear products conforms to the customers' specification, final quality inspection is performed by the third-party inspection centre before packaging for delivery. The Group also manages the logistic arrangements of finished knitwear products from third-party manufacturers to customers.

The Group's knitwear products can be divided into two categories, namely womenswear and menswear. During the Track Record Period, the Group's revenue was mainly derived from the sales of womenswear, representing approximately 90.6%, 83.5% and 78.1% of the Group's total revenue respectively. The following table sets out a breakdown of the Group's revenue during the Track Record Period by categories:

	For the year ended 31 March				**For the four months ended 31 July**			
	2015		**2016**		**2015**		**2016**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Womenswear	360,390	90.6	363,294	83.5	56,127	83.9	76,824	78.1
Menswear	37,578	9.4	71,912	16.5	10,792	16.1	21,601	21.9
	397,968	100.0	435,206	100.0	66,919	100.0	98,425	100.0

During the Track Record Period, majority of the Group's knitwear products were sold to Japan. The Group's products were also sold to Hong Kong, the PRC, Taiwan, France, the USA, Australia and South Africa. The following table sets out a breakdown of the Group's revenue by geographical segments (according to the locations where the Group's products were sold) during the Track Record Period:

	For the year ended 31 March				For the four months ended 31 July			
	2015		2016		2015		2016	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Japan	367,251	92.3	390,801	89.8	59,942	89.6	94,671	96.2
Hong Kong	22,595	5.7	29,515	6.8	5,084	7.6	2,306	2.3
The PRC	4,533	1.1	10,736	2.5	1,393	2.1	1,102	1.1
Other locations *(Note)*	3,589	0.9	4,154	0.9	500	0.7	346	0.4
	397,968	100.0	435,206	100.0	66,919	100.0	98,425	100.0

Note: Other locations comprise Taiwan, France, the USA, Australia and South Africa.

MARKET AND COMPETITION

According to the Euromonitor Report, the apparel supply chain management industry in Hong Kong is highly competitive and fragmented populated with a large number of firms ranging from multinational companies to smaller specialist and small scale firms. The apparel supply chain management market in Hong Kong is driven by (i) Hong Kong firms' profound knowledge of and experiences in apparel supply chain management; (ii) Hong Kong's close relationship with its trading partners; and (iii) industrialisation of other Asian economies. On the other hand, the majority of the Group's products were sold to customers in Japan. According to the Euromonitor Report, the key drivers for apparel retail industry in Japan will be, amongst others, (i) rising expenditure by foreign tourists on apparel in Japan; and (ii) growth in online retailing helping to encourage purchases of apparel products. The expenditure on apparel products was recorded as the third highest expenditure category for tourists in 2015, at JPY38,841 per person whilst online retailing has been taking off in Japan over the past decade with increasing number of Japanese consumers moving away from retail storefronts towards digital stores. The rising expenditure by foreign tourists on apparel and the growth of online retailing of apparel products in Japan are expected to drive the retail sales of apparel products in Japan which will lead to the increase in the demand for apparel products from the Group's customers and in turn will result in an increase in the demand for the Group's products and accordingly the Group's sales volume.

Furthermore, the consumption pattern in Japan apparel retail market has gradually shifted to the local and imported fast fashion with affordable price and the Group's knitwear products were mainly supplied to those low and middle priced fashion brands. With (i) established business relationships with the Group's customers; (ii) the provision of one-stop solution services ranging from design, sourcing, production management and logistics; (iii) strong and established product design and development capabilities; and (iv) management team with extensive apparel industry knowledge and experience, details of which are set out in the paragraph headed "Competitive strengths" in this section, the Directors believe that the Group is well-positioned to capture the growing demand for the Group's products.

However, the market is challenged by the fluctuations in the foreign exchange rate of JPY and the potential increase in consumption tax in Japan, which may in turn affect the level of consumer spending in Japan. For details, please refer to the section headed "Risk factors — Risks relating to Japan" in this prospectus.

In addition, with the increasing popularity of business-to-business commerce sites, brand owners and sourcing agents may be able to easily access third-party manufacturers. The Directors believe that the Group competes favourably with the business-to-business commerce sites because (i) the Group provides one-stop solution services ranging from design, sourcing, production management and logistics, and this complete coverage on the service scope is difficult to be provided by the business-to-business commerce sites as it requires extensive understanding of the brand requirements of its customers, market awareness, industry and technical apparel know-how; (ii) the Group is led by Mr. Chan and some senior management and merchandising team members who are proficient in or have knowledge of Japanese, which enables the Group to communicate well with the customers and brand owners from Japan, which is the major market of the Group, and enhances the loyalty of the Group's Japanese customers; and (iii) the Group had maintained business relationship with its five largest customers for a period ranging from 5 to 15 years as at the Latest Practicable Date. The Directors believe this stable relationship with the customers is difficult to be replaced by the business-to-business commerce sites. Because of the reasons above, and also evidenced by the increasing revenue of the Group during the Track Record Period, the Directors believe that the historical and expected impact of the shift in business-to-business in the apparel industry on the Group's sales is minimal.

The Directors also believe that the Group competes favourably with its competitors in terms of design capability, product quality and timely delivery. For further information regarding the competitive landscape of the industry in which the Group operates, please refer to the section headed "Industry overview" in this prospectus.

COMPETITIVE STRENGTHS

The Directors believe the following competitive strengths contribute to the Group's continued success and potential for growth:

Established business relationships with the Group's customers

Majority of the Group's customers are owners or sourcing agents of apparel retail brands based in Japan. During the Track Record Period, majority of the Group's products were sold to customers in Japan, which accounted for approximately 92.3%, 89.8% and 96.2% of the Group's total revenue, respectively. At the Latest Practicable Date, the Group had maintained business relationships with its five largest customers for a period ranging from 5 to 15 years. The Group works closely with its customers in devising new product designs each season and delivering knitwear products according to their requirements. Over the years, the Directors believe that the Group has fostered a trustworthy, reliable strategic partnership with its customers built upon its proven track record of quality products, industry and product know-how, market awareness, dedicated management team, and competitive pricing. In 2015, the Group was granted the "Best Partner Award" by Marubeni's Client in recognition of the quality of the Group's products. The Directors believe that the Group's commitment to provide high quality and reliable services helps strengthening the relationships between the Group and its customers, which would increase the sales of the Group.

Customers can rely on the Group to fulfil their needs for a full spectrum of apparel supply chain management services. The Directors believe that the Group has competitive advantages in, amongst others, (i) its strong and established design and product development capabilities to provide practical and innovative advice; (ii) its sourcing ability for quality raw materials and reliable production solutions due to its established and long-term relationships with the suppliers; and (iii) its familiarity and extensive experience in collaborating with the Japanese customers and third-party manufacturers whose manufacturing operations are in the PRC and/or Thailand, which in turn adds value for the Group's customers.

Furthermore, the Group would bring new designs to its customers from time to time and communicate with its customers through face-to-face meetings and sales presentations. The Directors believe that the regular communications with the Group's customers allow the Group to better understand their needs and requirements, which in turn strengthen the relationships between the Group and its customers.

The provision of one-stop solution services provider ranging from design, sourcing, production management and logistics

The Group provides one-stop solution of apparel supply chain management services in knitwear products for its customers. The Group offers a wide range of services ranging from fashion trend analysis, product design and development, sourcing and procurement of materials, production management, quality control and logistic services. Over years of collaboration with the customers in Japan, the Directors believe that the Group has accumulated extensive understanding of the brand requirements of its customers, market awareness, industry and technical apparel know-how. By engaging the Group to provide the apparel supply chain management services, the Directors believe that the customers found their needs accommodated along the supply chain of apparel products, which enables the customers to focus their resources on the retail business.

The Directors believe that being a one-stop solution provider allows the Group to have a high level of control in ensuring the delivery of consistent and quality apparel design and products and enables its customers to operate in a more cost-effective and efficient manner as they do not have to separately engage different parties to provide different types of services at each stage in the apparel supply chain. In addition, the Directors believe that it is easier for the Group to manage the production and delivery schedule in accordance with the customers' orders.

Strong and established product design and development capabilities

The Directors consider that the Group's strong product design and development capabilities is one of the key factors that has contributed to the Group's past success and will continue to drive the growth of its business. The Group had a design and promotion department with six staff as at the Latest Practicable Date which is mainly responsible for devising and providing new designs for the coming collection of knitwear products in accordance with the market fashion trend and the preferences of customers. During the Track Record Period, the Group generally provided over 100 new knitwear designs in each main fashion season. The design and promotion department conducts market research and attends apparel trade shows to keep abreast of the latest fashion trends and product development, which enables the Group to quickly respond to style changes and advances in the apparel industry. To facilitate customers in devising the procurement plans for the upcoming season, the Group would present the trend for the upcoming season to its customers, and discuss with the customers on the designs of upcoming collections.

In developing new knitwear products, the merchandising department works closely with its customers to create or modify the product designs in terms of yarn, styles, knitting pattern and colour to meet their brand requirements. The Directors believe that the design and development capability together with efficient communication and exchange of ideas between the Group and its customers can facilitate the procurement plans of the customers, which in turn enhances the loyalty of the customers to the Group.

Management team with extensive apparel industry knowledge and experience

The Group's management team has extensive apparel industry knowledge and experience. The management team is led by Mr. Chan, an executive Director, the chairman of the Board and the chief executive officer of the Company, who has over 25 years of management and operating experience in the apparel industry, in particular in the Japan market, has played a leading role in the Group's overall business growth. With his conversancy in the Japanese language and culture and the Japanese apparel market, the Group is able to establish closer contact to Japanese customers. The Directors believe that the management team's extensive experience and in-depth knowledge of the apparel industry would enable the Group to understand the market trends and the needs of its customers in a timely and efficient manner.

The Directors believe that an experienced and committed management team will enable the Group to continue to capture market opportunities and contribute significantly to its sustainable growth in the future. For further details of the biographies and relevant industry experience of the management team, please refer to the section headed "Directors and senior management" in this prospectus.

BUSINESS STRATEGIES

The Group's goals are to achieve sustainable growth and further strengthen its overall competitiveness and business growth in the apparel supply chain management services in Hong Kong. To achieve this, the Directors plan to continue to leverage the Group's competitive strengths and implement the following strategies:

Strengthening and diversifying the Group's customers base

During the Track Record Period, majority of the Group's products were sold to customers in Japan, which accounted for approximately 92.3%, 89.8% and 96.2% of the Group's total revenue, respectively. The Group has been in the Japan apparel market for over 15 years and the Directors consider that Japan will remain an important market for the Group in the near future. The Directors also recognise that reducing its reliance on Marubeni, the largest customer of the Group, is critical to achieving sustainable long-term growth. In this connection, the Group will continue to enhance its market presence among the existing and potential customers through extensive sales and marketing efforts.

In July and October 2016, the Group co-organised two three-day private exhibitions with one of its top five customers for promoting the Group's knitwear products in Japan. During the three-day private exhibitions, the Group was able to showcase its products samples to different brand owners, solicit new business opportunities and increase its market presence in Japan. In view of the positive feedback from the exhibitions, the Group plans to co-organise the private exhibitions with its customers as regular events for each of the main fashion season. The Directors are of the view that through the private exhibitions, the Group will be able to increase its market exposure and reputation in Japan apparel industry, diversify its customer base and revenue source which will in turn drive the growth of the Group's business. The forthcoming private exhibition is expected to be held in the first quarter of 2017 and the Group will continuously explore the possibilities of co-organising private exhibitions with its existing and potential customers. In this connection, the Directors expect that the Group will continuously visit and collaborate with its customers to promote the Group's products through extensive sales and marketing activities, in particular the private exhibitions, in order to explore new business opportunities.

As advised by the Directors, the Group did not actively solicit business from other potential customers in view of the sizable orders placed by its largest customer. With an aim to capture a larger market share in Japan apparel market, diversify the customer base and reduce the reliance on its largest customer, the Group will proactively approach the potential customers through business referrals and its business network, and/or by participating in more tradeshows and fashion shows to increase its market presence.

The Group intends to utilise, from the net proceeds of the Placing, (i) approximately HK$3.5 million for arranging sales visits and co-organising private exhibitions in Japan; (ii) approximately HK$0.9 million for soliciting and developing relationship with potential customers; and (iii) approximately HK$0.9 million for participating in trade fairs and fashion show.

Further expanding the Group's product variety to cater for the customers' needs

During the Track Record Period, the Group provided over 100 new knitwear designs in each main fashion season. The Group's revenue derived from the sales of menswear increased by approximately 91.2% or HK$34.3 million from approximately HK$37.6 million for the year ended 31 March 2015 to approximately HK$71.9 million for the year ended 31 March 2016. With an aim to further cater for the customers' needs by providing more comprehensive services to the customers and to attract new customers, the Group intends to expand its market in the men's knitwear sector and broaden its existing product types to cut-and-sewn knitwear and seamless knitwear.

The Group mainly supplied knitwear products for autumn/winter seasons, such as pullover and cardigan to its customers during the Track Record Period whereas the cut-and-sewn knitwear and seamless knitwear products can be made of different fabrics and yarns to suit different seasons. Cut-and-sewn knitwear is produced by cutting knitted fabric into panels and sewing them together to form an apparel, such as tank tops, skirts, t-shirts, polo shirts and fleece jacket. Seamless knitwear (also known as whole garment) is produced in one-piece complete garment without any linking and sewing process. The major difference between the Group's existing knitwear products and these products is their production process. The Group did not supply any cut-and-sewn knitwear because it did not recruit any merchandiser with such relevant experience at that time. In order to ensure that the Group's expansion plan is reasonable and achievable, the Group has recruited an experienced merchandising manager to promote and develop the cut-and-sewn knitwear market. In respect of seamless knitwear, the Group only supplied a minimal amount of seamless knitwear in accordance with the design provided by its customers during the Track Record Period. The gross profit margin of which was approximately 30.9%. The Directors consider that seamless knitwear generally has a higher profit margin as compared to the Group's existing products because it requires more aesthetic requirements and could usually command a higher profit margin and avoid waste of materials as cut-loss in the cutting process. Leveraging on the past experience, the Directors plan to put more efforts in promoting the Group's own designs on seamless knitwear in order to attract more orders from its customers so as to allow the Group to achieve the economies of scales and enhance its competitiveness. Furthermore, with an established relationship with its third-party manufacturers, the Directors believe that the Group is able to allocate orders to appropriate subcontractors to produce a particular type of products to suit the needs of its customers. It is expected that the gradual and continuing evolution of the Group's product mix will enable the Group to improve its revenue streams and product diversification which could reduce the seasonality impact over the Group's business performance.

According to the Euromonitor Report, the consumption pattern in Japan apparel retail market has gradually shifted to the local and imported fast fashion with affordable price. In other words, consumers tend to purchase more lower-priced apparel. It also states that the apparel retail industry in Japan is expected to benefit from (i) the rising expenditure by foreign tourists on apparel in Japan; and (ii) growth in online retailing helping to encourage purchase of apparel products. This suggests that there will be a growing demand in lower-priced apparel and fast fashion in Japan apparel market, which is expected to benefit the Group and the implementation of the Group's business strategy. The Group's customers are mainly owners or sourcing agents of apparel retail brands based in Japan offering a range of apparel products, including outerwear, tops and bottoms, under different brands and targeted at low-to-mid end apparel market. The Directors consider that the existing knitwear products supplied by the Group only form a minor portion of the customers' product portfolio and there are vast opportunities for the Group to capture a larger portion of market share by expanding its product variety to suit the different needs of the customers. Following the submission of the Company's listing application to the Stock Exchange in July 2016, the Group received non-legally binding memorandum of understandings ("**MOUs**") from four of its top five customers for the year ended 31 March 2016, in which they have indicated their willingness to increase the orders for the Group's products in view of the Group's resources, credibility and reputation after the Listing.

In view of the foregoing, the Directors consider that there will be an increasing demand in both the Group's existing and new products and believe that expanding and diversifying the Group's product variety will strengthen the Group's competitiveness and its market position in the apparel supply chain industry.

To achieve this business strategy, the Group intends to recruit 2 junior staff and 1 senior designer to form a new design team for cut-and-sewn knitwear and seamless knitwear. The Group also plans to purchase computer graphic design systems which are specialised in design support for seamless knitwear and all kinds of knitwear products, from knit planning, pattern design, colourway evaluation, creation of fitting simulation, production of samples, to output of instruction sheets. The Directors expect that the installation of such computer graphic design systems will further strengthen the Group's design efficiency and capability. In addition, the Group plans to allocate approximately HK$6.4 million of the net proceeds from the Placing for developing and creating promotion samples, of which approximately HK$3.7 million for producing approximately 10,600 to 11,800 samples of cut-and-sewn knitwear; and approximately HK$2.7 million for producing approximately 9,600 to 10,700 samples of seamless knitwear.

The Group also plans to implement various marketing activities, such as sales visits, development of promotion samples and distributing marketing materials, to promote menswear, cut-and-sewn knitwear and seamless knitwear. The Directors believe that the expansion and development of menswear, cut-and-sewn knitwear and seamless knitwear would enable the Group to offer a wider range of knitwear products to its existing customers and potential new customers to cater for their different needs and preferences. The Group intends to utilise approximately HK$10.55 million of the net proceeds from the Placing as to (i) approximately HK$0.4 million for setting up a new design team; (ii) approximately HK$2.4 million for purchasing computer design graphic system; (iii) approximately HK$6.4 million for developing and creating promotion samples; (iv) approximately HK$0.75 million for conducting market and design search for cut-and-sewn knitwear and seamless knitwear; and (v) approximately HK$0.6 million for promotion of cut-and-sewn knitwear and seamless knitwear. The estimate amount of depreciation to be incurred in the design systems to be approximately HK$20,000, HK$380,000 and HK$480,000 for the years ending 31 March 2017, 31 March 2018 and 31 March 2019, respectively.

Enhancing the Group's design and development capabilities

During the Track Record Period, the Group's revenue generated from the designs developed by the Group were approximately 35.8%, 40.2% and 34.2%, respectively. The Directors believe that the ability to anticipate and effectively respond to the ever-changing fashion trend is critical to the Group's past success and it will continue to drive the growth of the Group's business. The Directors also consider that there is a potential growth in the low-priced, fast fashion apparel in Japan market and the Group intends to capitalise on its industry knowledge to expand its business network in Japan. The Group plans to incorporate a new operating entity in Japan and set up a showroom with a design team and an account servicing team by recruiting local experienced designers and account servicing staff. The incorporation of a new office in Japan is aimed to enhance the standard and quality of the Group's products, to display and promote more sample products to customers and to perform liaison function for the Group.

It is the current intention of the Group to rent a property for its new office and showroom in Japan and the estimated rental expense will amount to approximately HK$90,000 per month. The Directors consider that with its own office and showroom being set up in Japan, the Group would be able to enhance its corporate profile and recognition locally and hence attract new Japanese customers who are not willing to travel abroad. Besides, it would be more cost effective and time saving for the Group to showcase its products to customers through the private exhibitions at its own showroom. The Directors consider that a strong design team with extensive design knowledge and understanding of local consumer preference, tastes and market awareness will enable the Group to offer a wider range of design tailored for the taste and preference of the Japan market. The Group plans to recruit 3 local experienced designers to form a design team to enhance the Group's design and development capabilities. By leveraging on their expertise, experience and contacts within Japan appeal industry, the Directors believe that this will facilitate a better communication with its customers so as to keep pace with the changes in the market trends and understand their brands requirements and preferences, and in turn will enable the Group to translate the market trends into designs that meet the customers' need and evolve the Group's product offerings. The Group also plans to recruit 2 local experienced account servicing staff, to which the Directors consider that it would allow the Group to leverage on their experience to better serve and communicate with the customers as well as increase the Group's market presence in Japan. The estimated expenditure for setting up a new office in Japan and the initial staff cost are expected to be approximately HK$1.85 million and HK$0.82 million, respectively. As advised by the Japanese Legal Advisers, the Company may incorporate a foreign investment company in Japan without any material legal impediments under the applicable Japanese laws and regulations and there is no restriction on foreign investor such as the Group entering into the apparel supply management industry in Japan.

Having considered that (i) the Japanese Legal Advisers are of the opinion that, there is no restriction on foreign investor such as the Group entering into the apparel supply management industry in Japan; (ii) the new operating entity to be set up will focus on conducting market research, developing knitwear designs and providing close customer relationship services; (iii) the design and development capability is one of the Group's competitive strength; and (iv) the Group has been in the Japan apparel market for over 15 years, the Directors are of the view that the establishment of a design and customer relationship team in Japan for on-going design and development and customer relationship building is feasible, which in turn will be helpful to maintain the Group's competitive edges and position in the apparel supply chain management industry.

In addition, the Group also plans to strengthen its product design efficiency by upgrading various computer software for design and development and will continue to arrange its staff to attend trade fairs and fashion shows regularly so as to keep them abreast of the latest fashion trends and industry know-how. On the other hand, the Group recognises the importance of quality control of the Group's products. To ensure the quality of the Group's products, in particular their colours, is in accordance with the customers' requirement and standard, the Group intends to purchase new computerised colour matching machines to replace the existing colour check light box which will enable the Group to perform colour check on the products instrumentally so as to enhance the Group's quality control capabilities. The total estimated expenditure for upgrading various computer software, arranging staff to attend overseas fashion shows and purchasing new computerised colour matching machines are expected to be approximately HK$1.2 million, HK$3.8 million and HK$0.3 million respectively. The estimate amount of depreciation to be incurred in the new computer software and machines are expected to be approximately HK$10,000, HK$145,000 and HK$265,000 for the years ending 31 March 2017, 31 March 2018 and 31 March 2019, respectively.

Enhancing the Group's inventory management to strengthen operational efficiency

During the Track Record Period, the lead time from customers' order placement to the delivery ranged from approximately 30 days to 217 days with an average lead time of approximately 120 days. The Group, in most cases, sources raw materials and other accessories from its suppliers for production only after the customers have confirmed their orders and their specifications. However, some of the Group's major customers may request for bulk purchase with a shorter delivery time (i.e. not more than 60 days) ("**Short-notice Orders**") for the knitwear products that are well-received in the market. The Group generally receives such Short-notice Orders in bulk from August to November, which is in the peak season for products of the autumn/winter collections and the Directors believe that the customers were restocking the hot items and stocking up for the Christmas and New Year holidays. During the Track Record Period, the Group's revenue derived from the Short-notice Orders amounted to approximately HK$126.3 million, HK$164.3 million and HK$24.9 million, respectively, representing approximately 31.7%, 37.8% and 25.3% of the Group's total revenue, respectively. As some raw materials may be required to be further processed before sending to third party manufacturers for production, the Directors consider that by utilising part of its net proceeds of the Placing for purchasing and maintaining an optimal level of raw materials for those customers who intend to place Short-notice Orders will enable the Group to respond swiftly to the customers' immediate need and compete against other apparel chain services providers.

Moreover, there are often time lags between making payments to the Group's raw materials suppliers and receiving payments from the Group's customers. The raw material suppliers typically grant a credit period of 30 days whereas the Group can only receive the payment in full from the customers upon delivery of goods. The average time lag between receiving payments from customers and making payments to suppliers were approximately 90 days. Starting from the second quarter each year, customers generally place orders to the Group for autumn/winter collections and the Group generally obtains more financing from banks for the purchases of raw materials in preparation for the peak season from August to February. Therefore, the ability of the Group to accept the customers' additional orders or Short-notice Orders is significantly limited in view of the time lag on receiving sales proceeds from customers and the available financial resources of the Group at the relevant time.

Furthermore, the Group often sources and procures the required raw materials for the third-party manufacturers for production. During the Track Record Period, the Group's revenue generated from the sales orders of which the Group sourced and procured raw materials and consumables for the third-party manufacturers were approximately HK$369.8 million, HK$297.4 million and HK$73.0 million, respectively, representing approximately 92.9%, 68.3% and 74.2% of the Group's total revenue, respectively. The ordered raw materials are either delivered by the suppliers directly to the third-party manufacturers as specified by the Group or temporarily stored in the Group's warehouse before delivery for productions.

In deciding the volume of the Short-notice Orders to be taken up by the Group, the Group would consider, among other things, the stock-up inventory level, the availability of raw materials and the amount of available working capital. The Directors consider that it is essential to utilise approximately HK$17.28 million from the net proceeds of the Placing to purchase raw materials in preparation for increasing orders or Short-notice Orders for the following reasons:

(i) *Heavy reliance on the banking facilities.* The Group relies heavily on banking facilities to finance its daily operations, in particular, for settling the trade payables to its raw materials supplier and making prepayments to its subcontractors/suppliers for productions. Such reliance is typically more obvious during the peak season whereby the Group's bank borrowing reached the highest utilisation rate of its total banking facilities of approximately 73.0% during the Track Record Period. Comparing with the Group's gearing ratio of approximately 0.9 times as at 31 March 2016, the Group's gearing ratio increased to approximately 4.4 times as at 31 July 2016 which implies that the level of debt incurred by the Group was higher than that of its equity and the fact that the Group generally obtains more finance from banks in the second quarter of the year to undertake the increasing sales orders for peak season. The Directors consider that further debt financing may further increase the gearing ratio of the Group as well as the finance costs, which in turn may affect the Group's financial performance as comparing to equity financing which is interest-free;

(ii) *Relatively lengthy to turn into cash resources.* The time lag between making payment to suppliers and receiving payments from customers is generally approximately 90 days. Should the customers delay their delivery schedule or subcontractors/suppliers require the Group to make prepayment for production, the Group may require a longer period to turn the trade receivables into cash resources, and thus affecting the Group's operating cash flow;

(iii) *Limitation of the Group's business expansion.* In respect of the Short-notice Orders, the customers generally enquires the quantity of raw material available for production with the Group before placing actual orders. After checking the Group's inventory level, the Group then agrees the sales quantities with the customers. As such, it is not able to quantify the amount of Short-order Notices which the Group was not able to accept due to unavailability of raw materials during the Track Record Period. The Directors consider that the amount of additional orders the Group is able to undertake so as to expand its business hinges on the availability of the Group's inventory level as well as the available working capital. In view of the foregoing, the Directors believe that, with the Group's strengthening financial capacity following the Listing, the Group will be able to take more customers' orders (including Short-notice Orders);

(iv) *Ability to cater for increasing orders.* A key factor which affects the ability of the Group to undertake additional orders is the availability of raw materials. Maintaining raw materials for those customers who show intentions to place Short-notice Orders would not only allow the Group to shorten the time between the production and delivery but also allow the customers to respond more quickly to market trends and this would in turn increase the orders from such customers. Moreover, based on the aforesaid MOUs, the Directors believe that the Group has to purchase and maintain more raw materials to cater for the increasing demand from its major customers after the Listing; and

(v) *The Group's inventory level.* The Group generally does not maintain a high level of inventory of raw materials despite the Group's inventory aged 180 days as at 31 July 2016 amounted to approximately HK$6.3 million. Such raw materials aged over 180 days were mainly yarns that are not commonly used under the latest style and colour trends. However, the Directors consider that such raw materials are durable in nature and can be blended to form a new blended yarn and subsequently be utilised when the fashion cycle arise. Notwithstanding the above, the Group plans to utilise the net proceeds of the Placing to purchase the raw materials for products that are classic, commonly accepted or previously confirmed with the customers for such Short-notice Orders.

The Directors believe that such practice will allow the Group to keep the raw material on a just-in-time basis and provide flexibility to the Group for receiving increasing orders or Short-notice Orders from the customers. The Directors intends to apply approximately HK$17.28 million from the net proceeds of the Placing to purchase raw materials in preparation for increasing orders or Short-notice Orders from customers, which will be utilised as to (i) approximately HK$1.0 million for the period between the Latest Practicable Date and 31 March 2017, (ii) approximately HK$8.0 million for the year ending 31 March 2018; and (iii) approximately HK$8.28 million for the year ending 31 March 2019.

In determining the total expenditure of approximately HK$17.28 million from the net proceeds of the Placing to be used for purchase of raw materials, the Directors have taken into account (i) the sales amount of Short-notice Orders amounted to approximately HK$126.3 million, HK$164.3 million and HK$24.9 million during the Track Record Period, representing approximately 31.7%, 37.8% and 25.3% of the Group's total revenue respectively; (ii) the sales amount of Short-notice Orders for the year ended 31 March 2016 recorded an increasing growth rate of approximately 30.1% as compared to that for the year ended 31 March 2015; (iii) the cost of raw materials and consumable used for the Short-notice Orders amounted to approximately HK$28.6 million, HK$38.1 million and HK$4.7 million during the Track Record Period, representing approximately 31.5%, 49.0% and 30.7% of the Group's total cost of raw materials and consumable used respectively; (iv) the cost of raw materials and consumable used for the Short-notice Orders for the year ended 31 March 2016 increased by approximately 33.2% as compared to that for the year ended 31 March 2015; and (v) the Group's revenue increased by approximately 9.3% from the year ended 31 March 2015 to the year ended 31 March 2016. Based on the historical growth in sales amount of short-notice orders and the increase in relevant cost of raw materials and consumable, the Directors estimate that the Group is able to secure increasing Short-notice Orders at a similar pace of around 30% per annum. Accordingly, the Directors estimate that the cost of raw materials and consumables used for the additional Short-notice Orders would be increased by approximately HK$11.0 million per annum for the forthcoming year. Based on the above, the Directors consider that it is commercially justifiable to utilise approximately HK$17.28 million in total for the three years ending 31 March 2019 from the net proceeds of the Placing for the purchase of raw materials. Moreover, based on the established business relationships with major customers and their intentions to increase orders from the Group after the Listing, the Directors believe that this will be an on-going phenomenon for the Group to stock up for the Short-notice Orders.

In addition to the above, the Group plans to procure an inventory management system in order to strengthen its operational efficiency by tracking the incoming and outgoing inventory levels of the raw materials. Since the Group's existing ERP system has been used for over 10 years and the default inventory management function does not match with the Group's business model, the Group plans to purchase a tailor-made inventory management system to strengthen the Group's inventory management. The Directors believe that by deployment of an new inventory management system, the Group will be able to maintain the desirable inventory level with reference to the actual sales and projected sales volume and to avoid excessive inventory effectively. The estimated total expenditure for purchasing a tailor-made inventory management system is expected to be approximately HK$0.5 million and the estimate amount of depreciation to be incurred in the inventory management system are expected to be nil, approximately HK$58,000 and HK$100,000 for the years ending 31 March 2017, 31 March 2018 and 31 March 2019, respectively.

For further details on the implementation of the abovementioned business strategy, please refer to the section headed "Statement of business objectives and use of proceeds" in this prospectus.

Reasonable justification for the Group's business strategies

According to the Euromonitor Report, the retail sales value of apparel is projected to reach approximately USD72,722.3 million in 2020, representing a CAGR of approximately 3.4% from 2016 to 2020. It also states that the apparel retail market in Japan is expected to recover due to growing popularity of internet apparel retailing, increasing inbound tourism and changing consumer pattern. Please refer to the section headed "Industry overview" in this prospectus for further details.

Notwithstanding that the retail sales value in Japan is forecasted to only grow mildly at a CAGR of approximately 3.4% from 2016 to 2020, on the basis that:

(i) the Japan apparel market has continuously contributed to the growth in the Group's business during the Track Record Period as evidenced by the increase of approximately 9.3% in the Group's revenue from approximately HK$398.0 million for the year ended 31 March 2015 to approximately HK$435.2 million for the year ended 31 March 2016 and increase of approximately 47.1% from approximately HK$66.9 million for the four months ended 31 July 2015 to approximately HK$98.4 million for the four months ended 31 July 2016. The Directors consider that the Group's one-stop solution services as discussed in the section headed "Business — Competitive strength" in this prospectus have enabled the Group to outpace the growth of Japan apparel retail market;

(ii) in mid-October 2016, the Client's Parent announced its plan to open approximately 50 oversea stores for Marubeni's Client in the coming years, of which 2 new stores will be opened in Hong Kong in the first quarter of 2017. In addition, one of the Group's top five customers is listed on the Tokyo Stock Exchange in late 2016. The Directors expect that the demand for the Group's knitwear will be increased as a result of the opening of new stores of Marubeni's Client and the further business expansion of its key customers in near future;

(iii) the prices of the Group's products ranging from approximately HK$30.8 to HK$655.2, HK$21.8 to HK$499.2 and HK$38.1 to HK$198.9 for each of the two years ended 31 March 2016 and the four months ended 31 July 2016, respectively.

Given (a) the Group's knitwear products were mainly supplied to those low and middle priced Japanese fashion brands; (b) the Euromonitor Report stated that the consumption pattern in Japan apparel retail market has gradually shifted to the local apparel brands and other imported fast fashion brands with affordable price; and (c) the Group's proven track record, strong product design and development capability, the Directors consider that the Group is capable of offering different types of products that are tailored for the customers' budget to keep pace with the changes in trends and consumers' preference; and

(iv) the Group recorded steady revenue growth in the four months ended 31 July 2016 as compared with the previous corresponding period and has sales orders on hand in total amounts of approximately HK$110.8 million as at 30 November 2016. The Directors believe that the higher sales orders received by the Group are mainly driven by the continuous effort of the Group to market its supply chain management services and recognition of the quality of the Group's products and services by the customers. As aforementioned, some of the Group's top five customers have indicated their interests on ordering new products from the Group and their willingness to increase in demands for the Group's products in view of the Group's resources and reputation after the Listing. The Directors believe that a listing status on GEM could attract potential customers who are more willing to establish business relationship with a listed company and it will also generate reassurance among the existing customers in view of the fact that four of the Group's top five customers during the Track Record Period were listed companies in Japan;

the Directors therefore consider that there will be considerable demand and vast opportunities for the Group to grow which justifies the Group's business strategies and implementation plans.

Additional funding for the implementation of the Group's business strategies

As at 30 November 2016, the Group had a total unrestricted banking facilities of approximately HK$92.0 million, of which approximately HK$59.0 million were trust receipt loan and invoice financing loan, and the remaining HK$33.0 million were revolving loan. Out of the total available HK$92.0 million of the aforesaid banking facilities, the Group had utilised a total of HK$15.0 million of trust receipt loan and invoice financing loan and HK$8.0 million of revolving loan. The Group had an unrestricted unutilised banking facilities amounted for approximately HK$69.0 million as at 30 November 2016, of which approximately HK$44.0 million were trust receipt loan and invoice financing loan and approximately HK$25.0 million were revolving loan. Taking into account the fact that (i) the available trust receipt loan and invoice financing loan as at 30 November 2016 is not sufficient to cover the Group's trade and other payable of approximately HK$65.8 million as at 30 November 2016; (ii) the high level of the Group's bank balance and cash of approximately HK$47.6 million as at 30 November 2016 is temporary in nature due to its business nature as discussed below; and (iii) the Group is required to maintain sufficient cash level to finance its daily operation as well as to meet its obligation to repay the outstanding banking facilities due within one year from time to time, the Directors consider that the Group has to obtain additional funding on top of the Group's available financial resources for implementation of the Group's business strategies.

The Group's top five customers are mainly listed companies or conglomerate in Japan. The ability of the Group to undertake more sales orders from the customers depends on the Group's available financial resources as well as the availability of raw materials. As the business plan of the Group's customers discussed above, it is expected that there will be an increasing demand from the customers for the Group's products. Based on the above and without taking into account the unutilised banking facilities, the Group's available working capital only amounted to approximately HK$22.8 million as at 30 November 2016. The Directors consider that the Group's current available financial resources can merely meet its present working capital requirements and the existing business scale of the Group but are not sufficient to satisfy the financial resources required for the implementation of all of the Group's business strategies. In order to cope with the increasing demand from its customers as well as their expansion plan, the Directors consider that the Group has to obtain additional funding for the Group's expansion.

The Group historically financed its working capital requirements through internal resources and bank borrowings. The Group's working capital requirements mainly represent the payments for staff cost and benefits, administrative expenses and cost of sales for its business operation. As regards the expenses which are fixed cost in nature, the Group's monthly average administrative expense and staff costs and benefits were approximately HK$3.8 million during the two years ended 31 March 2016. In respect of the cost of sales (which mainly include, among others, the subcontracting charges and raw materials and consumables used), the monthly average amount that the Group incurred in relation to its operation during the two years ended 31 March 2016 were approximately HK$29.4 million. Based on the above, the Group's monthly average expenses in relation to its operating activities were approximately HK$33.2 million.

During the two years ended 31 March 2016, the monthly average bank balances and cash of the Group amounted to approximately HK$19.3 million. The Group had a relatively higher level of bank balances and cash of approximately HK$47.6 million as at 30 November 2016 compared to that of approximately HK$20.8 million as at 31 March 2016 was mainly due to the fact that the Group recorded higher sales in the second half of the year, particularly during the peak season. Furthermore, the Group's prepayments made to its subcontractors/suppliers as at 31 March 2016 increased by approximately HK$7.6 million to approximately HK$16.0 million as at 31 July 2016, which was mainly attributable to increase in deposits paid for the raw materials for the upcoming autumn/winter clothing. As a result, the Group reported negative cash flows from operating activities of approximately HK$30.6 million during the four months ended 31 July 2016. This demonstrated that the Group's operating cash flow experienced significant fluctuation during the Track Record Period. Having considered that (i) the aforesaid monthly average operating expenses; (ii) the aforesaid monthly average bank balance and cash level; and (iii) the fluctuation in the Group's operating cashflow during the Track Record Period, the Directors consider that the high level bank balances and cash of the

Group as at 30 November 2016 is temporary in nature and the current available financial resources is for maintaining of its existing operations but not adequate for the Group's expansion plan.

As discussed above, the Group also heavily relies on the banking facilities to finance its daily operation and its liquidity needs for settlement of trade and other payables. If the Group pursues its business strategies by utilising its banking facilities (excluding approximately HK$59.0 million of trust receipt loan and invoice financing loan) and without raising additional funding, this may reduce the Group's financial resources that would otherwise be available to fund other expenditures and hence put the Group's cash flow and working capital under pressure. Besides, further bank borrowing obtained by the Group would inevitably increase the interest expenses and impose additional financial burden to the Group's future cashflow, to which the Directors consider that it is not in the interest of the Company and its Shareholders.

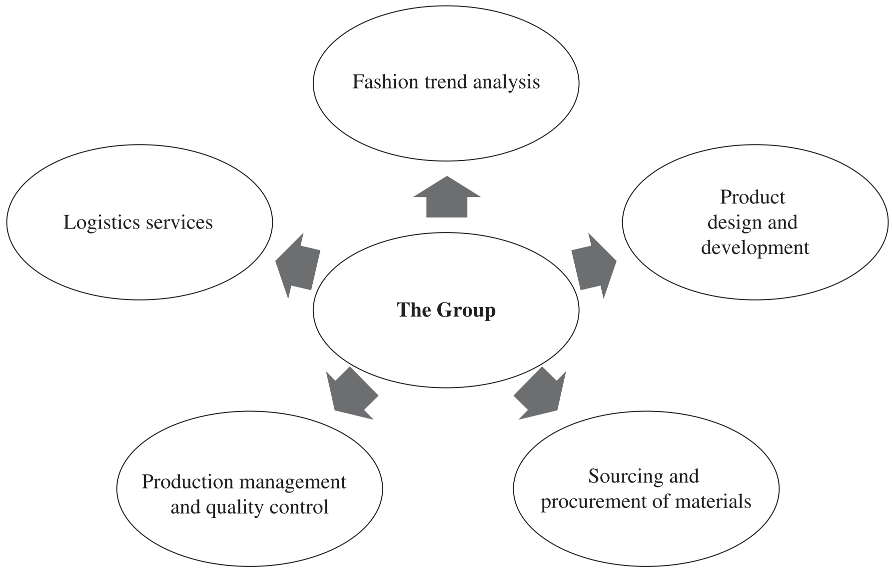
Accordingly, the Directors believe that it is necessary to maintain a disciplined financial strategy without exposing the Group to aggressive gearing in order to achieve sustainable growth in the long run; and to maintain a cash level sufficient to support the Group's existing operations, while the net proceeds from the Placing will be essential for the implementation of the Group's business expansion.

APPAREL SUPPLY CHAIN MANAGEMENT SERVICES

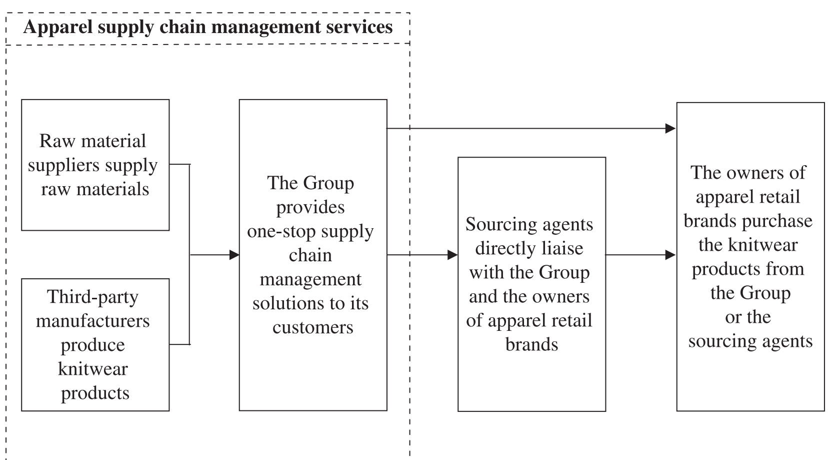
The Group acts as a one-stop solution provider for knitwear products to its customers. The Group offers a wide range of apparel supply chain management services ranging from fashion trend analysis, product design and development, sourcing and procurement of materials, production management, quality control and logistics services. To focus the resources on the provision of apparel supply chain management services, the Group does not own or operate any manufacturing operations. Instead, the Group will outsource the labour intensive manufacturing process to third-party manufacturers with manufacturing operations in the PRC and/or Thailand. All the Group's knitwear products are manufactured in accordance with the specifications and requirements set out by the Group's customers in the sales order and/or design recommended or inspired by the Group. During the Track Record Period, the majority of the Group's knitwear products were sold to Japan. The Group's customers are mainly owners or sourcing agents of apparel retail brands based in Japan, which products are marketed and sold under their own brands.

With an aim to expand the Group's supplier base as well as to cope with its expansion plan, the Group has established Speed Apparel Shenzhen to assist in identifying potential raw material suppliers and third-party manufacturers in the PRC for its procurement needs and liaising with the PRC customers for logistic arrangement. The Directors are of the view that by setting up Speed Apparel Shenzhen in the PRC, the Group will be able to identify and approach the local potential suppliers and to respond to the PRC customers' feedback in a timely and efficient manner.

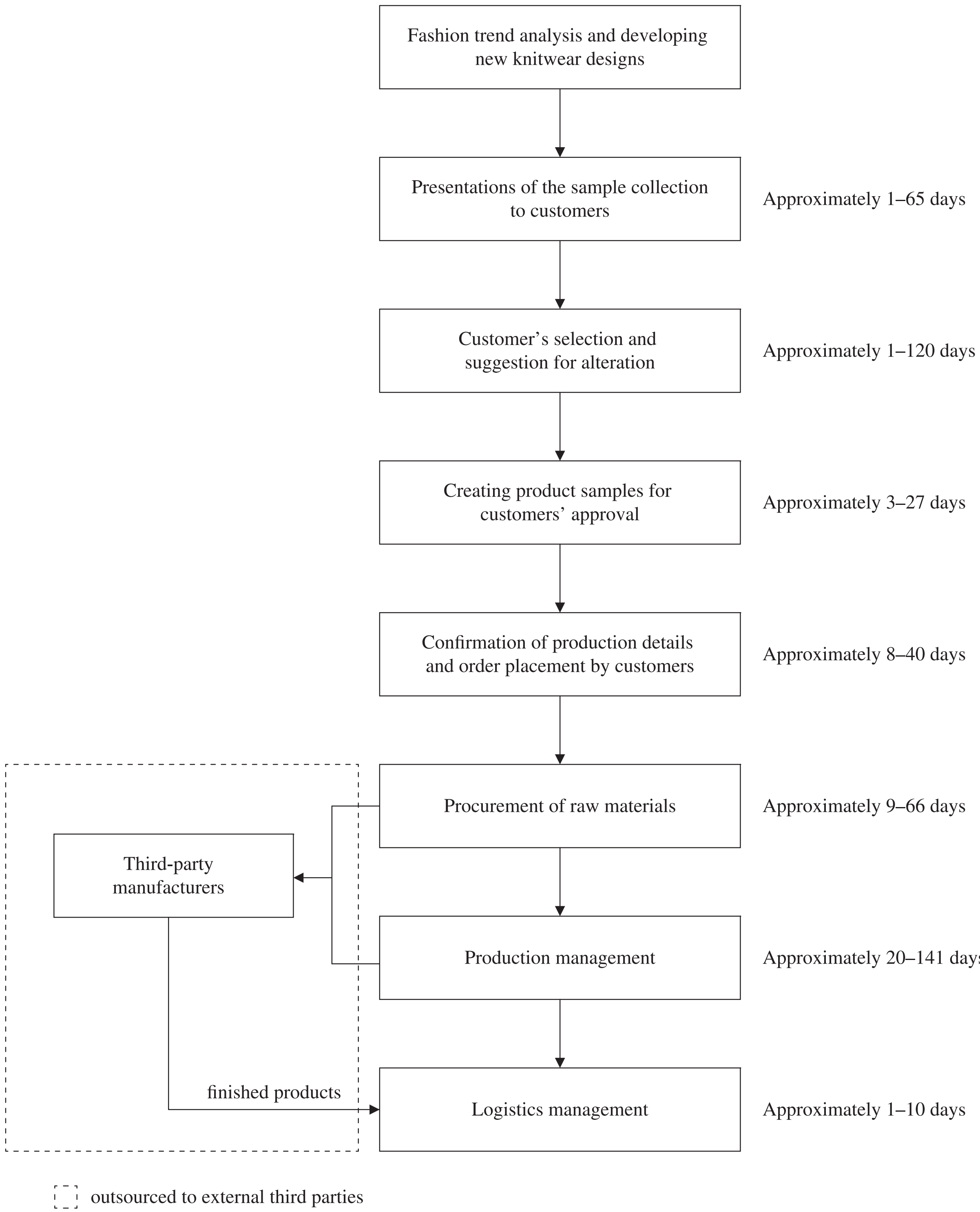
The following diagram summarises the Group's apparel supply chain management services:



The following diagram illustrates the Group's business model for the provision of apparel supply chain management services:



The following flow chart sets out a typical flow of operations involved in the provision of the Group's apparel supply chain management services:



Fashion trend analysis

The Group's design and promotion department is responsible for product design and development. The design and promotion department will conduct market research through fashion magazines, websites, and attend fashion trade shows to keep abreast of the latest fashion trends, styles and industry know-how while the merchandising department will hold meetings with the customers to understand their requirements such as budgets and design preferences. The Group will research on new blending of yarn with yarn suppliers and new knitting pattern so as to formulate new product design for the upcoming season.

Product design and development

Based on the result of market research and customers' brand requirements for the upcoming season, the design and promotion department will start devising the themes and trend for the coming collection of knitwear products. The Group will communicate with its customers and recommend new designs and inspirations to its customers from time to time before they finalise their procurement plans. Capturing a thorough understanding of the customers' preferences, the design and promotion department will create and develop new collections of knitwear design that are tailored to match each customer's budget and style. During the Track Record Period, the design and promotion department formulated or developed over 100 new knitwear designs in each main fashion season. Once the new collections for the upcoming season has been developed, the merchandising department will liaise with the third-party manufacturers to produce promotion samples. A promotion sample is a prototype of a new knitwear design for the upcoming season. The Group will showcase the trend forecast and promotion samples with the preliminary quotation to its major customers through face-to-face presentations or to the owners of apparel retail brands or the sourcing agents through attending the tradeshows organised by the sourcing agents. Based on the feedback from its customers, the Group may further modify the knitwear design and specifications in respect of style and fitting to match their budget and style. Alternatively, the customers may develop their own designs and/or make modifications to the designs recommended or inspired by the Group and provide their own designs to the Group. The Group will also give suggestions to assist its customers in fine-tuning or adjusting their original designs so as to improve the efficiency of the production process and to match the customers' requirements.

After confirming the knitwear designs, the Group will then prepare an instruction sheet to and liaise with its third-party manufacturers for the production of the sample products. An instruction sheet will set out all the specifications for the knitwear and typically includes information such as the graphic images, knitting pattern, labelling specifications and specific dimension of the knitwear. As part of the apparel supply chain management services, the cost of preparing a sample product is generally borne by the Group and it is the understanding of the Directors that it is the industry practice to include such costs when the Group determines the price of its knitwear products. Once the customers are satisfied with and grant the approval of the sample products, the Group will finalise the details of the purchase orders with the customers, including the quantities, price, delivery date and product specifications. The customers will then place the purchase orders with the Group with all such details confirmed.

Procurement of raw materials

The Group's purchasing department is responsible for selecting suppliers for the purchase of necessary raw materials and accessories. The Group will source the required raw materials to meet the product specifications set out by the customers. The Group generally places the purchase orders with its raw material suppliers after the customers' orders are confirmed. The raw material suppliers will deliver the raw materials ordered directly to the third-party manufacturers designated by the Group. However, the Group will also maintain a certain level of inventory for various types of yarn that are expected to be popular or commonly accepted based on the anticipated fashion trends. For the yarn stocked by the Group, the Group generally requires the third-party manufacturers to collect the raw materials from the Group's warehouse and deliver such raw materials to their factories for production. The Group's purchasing department or, where the purchase order to the third-party manufacturers is on FOB terms, the Group's third-party manufacturers will source and purchase the required yarn and/or accessories from the raw material suppliers which are either recommended by the Group or specified by the customers. The Group will decide whether to provide raw materials to third party manufacturers for production or to require the third party manufacturers to source and procure raw materials for production after taking into consideration, among other things, the stock-up inventory level and the size of orders. To ensure that the quality of the knitwear products conforms to the sample products approved by the customer, the Group will typically engage the same third-party manufacturer for producing the final order. If specific colour of yarn is required for the knitwear products, the Group will liaise with the suppliers to make a lab-dip sample for customers' approval. A lab-dip is a laboratory procedure to test the compliance of yarn samples with customers' colour specifications. The Group will follow up on the dyeing of yarn to ensure that the colour specifications of the yarn are conformed to.

Further details regarding the raw material suppliers are set out in the paragraph below headed "Business — Suppliers" in this prospectus.

Production management

The Group does not own or operate any manufacturing operations and all of the knitwear products (including sample products and final products) are produced by the independent third-party manufacturers. The Group has its own discretion to choose and engage the third parties manufacturers with reference to the product types and specifications. During the Track Record Period, the Group engaged third-party manufacturers with manufacturing operations in the PRC and/or Thailand. As part of the apparel supply chain management services, the Group will be responsible for the overall production management which includes, among other things, monitoring production schedule, evaluating the performance of third-party manufacturers and providing technical advice to third-party manufacturers.

After the customers' confirmation on sales orders, the Group would place the production orders with the relevant third-party manufacturers to produce the knitwear products based on the specification and requirements set out by the customers. Once the orders have been confirmed with the third-party manufacturers, the Group departments would, on a continuing basis, provide technical advice to the third-party manufacturers during the production process. The Group will keep close contact with the third-party manufacturers and update the production schedule to ensure that they are able to meet the customers' delivery schedule. The Group will also monitor the performance of the third-party manufacturers by random checking on semi-finished products at various stages of the production process for quality control purpose.

Before packaging for delivery, all of the finished products will be sent for final inspection which will be carried out by a third-party inspection centre that is acceptable by the relevant customer. The inspection fee will be borne either by the Group or the customer depending on the customer's requirement. If the customer requires the Group to cover the inspection fee, such cost will be taken into account when the Group determines the price of its knitwear products. The final inspection will be performed to ensure that all of the finished products comply strictly with the customers' specifications and requirements. If defects are found in the finished products, the finished products will be reprocessed by the third-party manufacturers according to the comments as stated in the first inspection report and re-examined by the inspection centre. After passing the final inspection, all finished products will be packed for delivery.

During the Track Record Period, the lead time between the initial stage of the development of product designs and the placing of orders by the customers ranged from approximately 13 days to 252 days, and the lead time between the placing of orders by the customers and delivery ranged from approximately 30 days to 217 days. The actual lead time depends on a number of factors, such as the quantity of an order, the complexity of product design, the availability of raw material, and the delivery time required by the Group's suppliers and/or specified by the customers.

Logistics services

As part of the apparel supply chain management services, the Group will ensure that appropriate logistics for the delivery of the finished products to the port specified by the customers are made by the third-party manufacturers. After packaging, the third-party manufacturers engaged by the Group will generally arrange for the delivery of the finished products to Hong Kong before they are shipped or transferred to the designated forwarder of the Group's customers.

The majority of the knitwear products are delivered to the customers on FOB terms as stipulated in the customers' purchase orders as well as the production orders entered into between the Group and the third-party manufacturers. The Group does not bear any risk for any damage to the products after the products have reached the customers' designated ports of shipment. This means that the Group's responsibility is to ensure that the knitwear products are delivered to the appropriate points of shipment designated by the customers.

For further information on the typical delivery details, please refer to the section headed "Business — Customers — Salient terms of a typical sales transaction" in this prospectus.

QUALITY CONTROL

As an apparel supply chain management services provider, the Group's services encompass the total supply chain from the selection of raw materials until the final delivery of finished products to the customers at their designated port of shipment. The Group places great emphasis on the quality of its knitwear products and the Directors believe that the commitment to the high standard for quality control of its knitwear products is one of the key factors contributing to the Group's success. Stringent quality control procedures such as inspection of the finished products by a third party inspection centre before shipping to the customers and monitoring the production process by keeping a production schedule have been established throughout the total supply chain so as to ensure the quality of the knitwear products are supplied in consistently reliable and high standard.

Quality control of raw materials

To ensure that the raw materials meet the standards and specifications as required by the customers, the Group will from time to time communicate the relevant requirements to its suppliers. The Group will also include such terms in the purchase orders with its suppliers that the raw materials supplied shall meet the quality requirements. Any raw materials that fail to meet the standards will be returned to the supplier for replacement.

Quality control of production management

To ensure that the quality of the knitwear products are in conformity with the customers' specifications, the Group will perform random checking on semi-finished products produced by the third-party manufacturers at various stages of the production process. To ensure that the colour conforms to the customers' specifications and standards, the Group will visually inspect the colour on the semi-finished and finished products with colour check light box. The merchandising quality control staff will check whether the semi-finished products are free from major defects and to ensure that the knitting patterns match the customers' design and specifications. Before packaging for delivery, all finished products will be checked by a third-party inspection centre. Any products that fail to meet the standards will be notified to the third-party manufacturers for rectification.

The Directors consider that the capability of the Group in quality assurance is evidenced by the fact that the Group had not experienced any significant product return, redelivery or material quality disputes with its customers during the Track Record Period. The Directors believe that the Group's commitment to high quality and reliability helps strengthen the recognition and trust among its customers which would in turn result in increased sales of the Group.

PRODUCTS

The Group's knitwear products can be divided into two categories, namely womenswear and menswear. During the Track Record Period, the Group's knitwear products are mainly for women. The following table sets out a breakdown of the Group's revenue during the Track Record Period by categories:

	For the year ended 31 March				For the four months ended 31 July			
	2015		2016		2015		2016	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Womenswear	360,390	90.6	363,294	83.5	56,127	83.9	76,824	78.1
Menswear	37,578	9.4	71,912	16.5	10,792	16.1	21,601	21.9
	397,968	100.0	435,206	100.0	66,919	100.0	98,425	100.0

All the Group's knitwear products are manufactured in accordance with the specifications and requirements set out by the Group's customers in the sales orders and/or designs recommended or inspired by the Group. The following table sets out a breakdown of the Group's revenue during the Track Record Period by design origination:

	For the year ended 31 March				For the four months ended 31 July			
	2015		2016		2015		2016	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Designs developed by the Group	142,324	35.8	175,028	40.2	31,023	46.4	33,628	34.2
Designs developed by customers	255,644	64.2	260,178	59.8	35,896	53.6	64,797	65.8
	397,968	100.0	435,206	100.0	66,919	100.0	98,425	100.0

Sales volume

During the Track Record Period, the sales volume of the Group amounted to approximately 7,522,000 and 8,352,000 units of finished knitwear products respectively. Set out below are the total sales quantities of each product category during the Track Record Period:

	For the year ended 31 March				For the four months ended 31 July			
	2015		2016		2015		2016	
	Units sold ('000)	*%*	*Units sold ('000)*	*%*	*Units sold ('000) (unaudited)*	*%*	*Units sold ('000)*	*%*
Womenswear	7,179	95.4	7,010	83.9	1,072	81.9	1,458	79.2
Menswear	343	4.6	1,342	16.1	237	18.1	382	20.8
	7,522	100.0	8,352	100.0	1,309	100.0	1,840	100.0

Average selling price and gross profit margin

Set out below are the average selling prices per unit of finished product sold by the Group to its customers for each product category during the Track Record Period:

	For the year ended 31 March				For the four months ended 31 July			
	2015		2016		2015		2016	
	Price range	**Average selling price** *(Note)*	**Price range**	**Average selling price** *(Note)*	**Price range**	**Average selling price** *(Note)*	**Price range**	**Average selling price** *(Note)*
	HK$	*HK$*	*HK$*	*HK$*	*HK$ (unaudited)*	*HK$ (unaudited)*	*HK$*	*HK$*
Womenswear	30.8–326.0	50.2	21.8–378.3	51.8	21.8–265.2	52.3	38.1–198.9	52.7
Menswear	41.3–655.2	109.7	36.3–499.2	53.6	36.3–243.4	45.6	46.5–175.9	56.5
Total average selling price		52.9		52.1		51.1		53.5

Note: The average selling price represents the revenue for the year/period divided by the total sales quantities for that year/period.

The selling price of each of the product categories depends primarily on, among other things, (i) the complexity of the product design; (ii) the size of an order; (iii) the delivery schedule set out by customers; (iv) the costs of raw materials; and (v) the production costs as quoted by the third-party manufacturers. Accordingly, the selling price of the Group's products may differ considerably in different purchase orders by different customers.

Set out below are the average gross profit margin for each product category during the Track Record Period:

	For the year ended 31 March		For the four months ended 31 July	
	2015	2016	2015	2016
	%	%	% (unaudited)	%
Womenswear	15.1	15.1	12.6	15.2
Menswear	21.9	13.0	11.6	12.6
Overall	15.7	14.7	12.4	14.6

Set out below are the gross profit margin for the Group's products during the Track Record Period by design origination:

	For the year ended 31 March		For the four months ended 31 July	
	2015	2016	2015	2016
	%	%	% (unaudited)	%
Designs developed by the Group	12.9	13.6	7.7	13.5
Designs developed by customers	17.3	15.5	16.4	15.2
Overall	15.7	14.7	12.4	14.6

During the Track Record Period, the Group's overall gross profit margin slightly decreased from approximately 15.7% for the year ended 31 March 2015 to approximately 14.7% for the year ended 31 March 2016. The decrease in the Group's overall gross profit for the year ended 31 March 2016 as compared to that of the previous year was mainly attributable to more sales volume on the low-priced menswear which had a lower profit margin whereas the gross profit for womenswear remained stable. The Group's overall gross profit margin increased to approximately 14.6% for the four months ended 31 July 2016 from approximately 12.4% for the four months ended 31 July 2015. Please refer to the section headed "Financial information — Consolidated statements of profit or loss and other comprehensive income — Gross profit and gross profit margin" in this prospectus for further information on the Group's overall gross profit.

CUSTOMERS

Characteristics of the Group's customers

The Group's customers primarily include owners or sourcing agents of apparel retail brands based in Japan, which products are marketed and sold under their own brands. During the Track Record Period, the Group sourced and supplied its knitwear products for over 140 Japanese fashion brands and there were 27, 22 and 20 customers who contributed to the Group's revenue respectively. The Group generally takes orders from the apparel retail brand owners directly and/or the designated sourcing agents engaged by the apparel retail brand owners.

Based on previous experience of dealing with Japanese customers, the Directors understand that it is a common practice for certain apparel retail brand owners to engage sourcing agents as their intermediate to source for apparel, arrange for logistic, liaise with, and make payment to the sellers, which is in line with the market practice in the Japanese apparel industry. The Directors consider that by engaging the sourcing agents to deal with the supply chain management providers, the brand owners would be able to focus their resources on the retail business through streamlining their administrative functions such as sourcing raw materials and suppliers, warehousing and logistic arrangement as they do not have to separately engage different parties to provide different types of services at each stage in the apparel supply chain. As at 31 July 2016, the Group had 20 customers, of which 5 were sourcing agents of Japanese apparel retail brands and 15 were brand owners.

All of the Group's knitwear supplied to its customers are produced by the third-party manufacturers in accordance with the specifications and requirements set out by the customers. The Group has its own discretion to choose and engage the third parties manufacturers with reference to the product types and specifications. At the request of certain major customers, the Group shall procure the third parties manufacturers to undertake that the dyed yarn should not contain any harmful or toxic chemicals under the applicable Japanese laws and regulations. To ensure the compliance requirements and colour of dyed yarn conforms to the customers' specifications, the Group will provide the lab-dip samples for customers' approval before production. Save and except for the aforesaid compliance requirements of dyed yarn, the Group did not receive any code of conducts from its customers with which the Group is required to comply. During the Track Record Period, the Directors confirm that none of the customers has designated any third parties manufacturers for producing their products which were supplied by the Group and no material complaints has been received and no claim has been made against the Group by its customers in relation to the breach of compliance requirements of dyed yarn.

Location of customers

During the Track Record Period, majority of the Group's knitwear products were sold to Japan. The Group's products were also sold to Hong Kong, the PRC, Taiwan, France, the USA, Australia and South Africa. The following table sets out a breakdown of the Group's revenue by geographical segments (according to the locations where the Group's products were sold) during the Track Record Period:

	For the year ended 31 March				For the four months ended 31 July			
	2015		2016		2015		2016	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Japan	367,251	92.3	390,801	89.8	59,942	89.6	94,671	96.2
Hong Kong	22,595	5.7	29,515	6.8	5,084	7.6	2,306	2.3
The PRC	4,533	1.1	10,736	2.5	1,393	2.1	1,102	1.1
Other locations *(Note)*	3,589	0.9	4,154	0.9	500	0.7	346	0.4
Total	397,968	100.0	435,206	100.0	66,919	100.0	98,425	100.0

Note: Other locations comprise Taiwan, France, the USA, Australia and South Africa.

Top five customers

The percentage of revenue contributed by the largest customer for the two years ended 31 March 2016 and the four months ended 31 July 2016, amounted to approximately 43.9%, 50.8% and 54.3% respectively, while the percentage of revenue contributed by the five largest customers combined amounted to approximately 86.9%, 90.4% and 91.0% respectively. The top five customers of the Group during the Track Record Period have maintained business relationships with the Group for a period ranging from 5 to 15 years.

Set out below is a breakdown of the Group's revenue by major customers in terms of revenue contribution:

For the year ended 31 March 2015:

Rank	Customer	Revenue	As % of total revenue
		HK$'000	*%*
1	Marubeni	174,871	43.9
2	Toyoshima and Co., Ltd.	98,312	24.7
3	World Production Partners Co., Ltd	40,654	10.2
4	Mitsubishi Corporation Fashion Co., Ltd.	16,184	4.1
5	ITOCHU Corporation	15,920	4.0
	Five largest customers combined	345,941	86.9
	All other customers	52,027	13.1
	Total revenue	397,968	100.0

For the year ended 31 March 2016:

Rank	Customer	Revenue	As % of total revenue
		HK$'000	*%*
1	Marubeni	221,138	50.8
2	Toyoshima and Co., Ltd.	90,872	20.9
3	World Production Partners Co., Ltd	35,956	8.3
4	Customer F	30,153	6.9
5	Nippon Steel and Sumikin Bussan Corporation	15,421	3.5
	Five largest customers combined	393,540	90.4
	All other customers	41,666	9.6
	Total revenue	435,206	100.0

For the four months ended 31 July 2016:

Rank	Customer	Revenue	As % of total revenue
		HK$'000	*%*
1	Marubeni	53,422	54.3
2	Toyoshima and Co., Ltd.	26,438	26.9
3	World Production Partners Co., Ltd	4,453	4.5
4	Mitsubishi Corporation Fashion Co., Ltd.	2,998	3.0
5	ITOCHU Corporation	2,259	2.3
	Five largest customers combined	89,570	91.0
	All other customers	8,855	9.0
	Total revenue	98,425	100.0

All of the Group's top five customers during the Track Record Period are Independent Third Parties. To the best knowledge of the Directors, none of the Directors, their close associates, or any Shareholders (which to the knowledge of the Directors owns more than 5.0% of the Company's issued share capital upon completion of the Placing) had any interest (direct or indirect) in any of the Group's five largest customers during the Track Record Period.

Set out below is the background information of the Group's top five customers during the Track Record Period:

Customer	Types of customers	Number of brands supplied by the Group: For the year ended 31 March 2015	Number of brands supplied by the Group: For the year ended 31 March 2016	Number of brands supplied by the Group: For the four months ended 31 July 2016	Business activities	Headquarters location	Year(s) of business relationship with the Group	Typical payment method
Marubeni	Sourcing agent of apparel retail brands	1	3	2	Wholesale of fashion apparel garments and accessories	Japan	9	Letter of credit at sight
Toyoshima and Co., Ltd.	Sourcing agent of apparel retail brands	86	64	28	Textiles and garments export	Japan	11	Letter of credit at sight
World Production Partners Co., Ltd	Owner of apparel retail brands	27	29	18	Apparel/fashion accessories planning and proposal, production control, sourcing new suppliers and trading	Japan	8	Letter of credit at sight
Mitsubishi Corporation Fashion Co., Ltd.	Sourcing agent of apparel retail brands	3	3	1	Textiles development, product planning, manufacturing, sales and logistics in the fields of apparel and fashion	Japan	15	Letter of credit at sight
ITOCHU Corporation	Sourcing agent of apparel retail brands	17	19	6	Domestic trading, import/ export, overseas trading, finance and business investment	Japan	11	Letter of credit at sight
Customer F	Owner of apparel retail brands	2	2	2	Apparel, accessories trading and/or retail business	Japan	6	Letter of credit at sight
Nippon Steel and Sumikin Bussan Corporation	Sourcing agent of apparel retail brands	7	7	3	Materials development, product planning, production and distribution of apparel, centering on OEM production for apparel makers	Japan	5	Letter of credit at sight

Marubeni is a group of companies which include a company dually listed on the Tokyo Stock Exchange and Nagoya Stock Exchange and its subsidiaries provide wholesale of fashion apparel garments and accessories. The principal business of Marubeni comprises five segments, namely, (i) food and consumers' products; (ii) chemical and forest products; (iii) energy and metal; (iv) power projects and plant; and (v) transportation and industrial machinery. According to the consolidated financial results of Marubeni for the year ended 31 March 2016, its revenue and net profit were approximately JPY7,300.3 billion and approximately JPY67.5 billion for the year ended 31 March 2016, respectively.

Toyoshima and Co., Ltd. is a private company incorporated in Japan and its subsidiaries. Toyoshima and Co., Ltd. principally carries on the business of wholesale of raw materials (cotton, wool, etc), yarns, textiles and garments export, import and tripartite trade, sales of large-sized electric equipment for buildings and building materials; design and construction of building. According to its financial report published on its website, it recorded a revenue of approximately JPY186.5 billion and a net profit of approximately JPY3.8 billion for the year ended 30 June 2015, respectively.

World Production Partners Co., Ltd is a private company incorporated in Japan and is principally engaged in apparel/fashion accessories planning and proposal, production control, sourcing new suppliers and trading. The parent company of World Production Partners Co., Ltd is a private company incorporated in Japan and its principal business is planning and sales of clothing for women, men and children, and other products. According to the financial result of World Production Partners Co., Ltd's parent company published on its website, its revenue and net profit were approximately JPY278.2 billion and approximately JPY764 million for the year ended 31 March 2016, respectively.

Mitsubishi Corporation Fashion Co., Ltd. carries on the business of material development, product planning, and production management in the fields of apparel and fashion. The parent company of Mitsubishi Corporation Fashion Co., Ltd. is a company dually listed on the Tokyo Stock Exchange and Nagoya Stock Exchange and its principal business comprises eight segments, namely, (i) global environmental and infrastructure business; (ii) industrial finance, logistics and development; (iii) energy business; (iv) metals; (v) machinery; (vi) chemicals; (vii) living essentials; and (viii) business service. According to the consolidated financial results of the parent company of Mitsubishi Corporation Fashion Co., Ltd. for the year ended 31 March 2016, it recorded a revenue of approximately JPY6,925.6 billion and a net loss of approximately JPY132.7 billion for the year ended 31 March 2016.

ITOCHU Corporation is a group of companies which include a company listed on the Tokyo Stock Exchange and its subsidiaries carry on the business of the manufacturing and wholesale of apparel. The principal business of ITOCHU Corporation comprises four segments, namely, (i) energy and chemical; (ii) information and communication technology, general products and realty; (iii) metals and minerals; and (iv) food. According to the consolidated financial results of ITOCHU Corporation for the year ended 31 March 2016, its revenue and net profit were approximately JPY5,083.5 billion and approximately JPY276.4 billion for the year ended 31 March 2016, respectively.

Customer F is a group of companies which their ultimate holding company is a company listed on the Tokyo Stock Exchange and its subsidiaries carry on the business of specialty retailing of private label apparels, designing and selling of women's fashion apparel and accessories. Customer F principally carries on the business of apparel, accessories trading and/or retailing. According to the financial result of Customer F's parent company, its revenue and net profit were approximately JPY68.8 billion and JPY4.2 billion for the year ended 31 January 2016, respectively.

Nippon Steel and Sumikin Bussan Corporation is a company listed on the Tokyo Stock Exchange and its subsidiaries carry on the business of in the materials development, product planning, production, and distribution of apparel. The principal business of Nippon Steel and Sumikin Bussan Corporation comprises four segments, namely, (i) steel; (ii) industrial supply and infrastructure; (iii) textile; and (iv) foodstuffs. According to the summary of consolidated financial results of Nippon Steel and Sumikin Bussan Corporation for the year ended 31 March 2016 as published on its website, its net sales and net profit were approximately JPY1,930.8 billion and approximately JPY18.4 billion for the year ended 31 March 2016, respectively.

Master supply agreement entered into between the Group and its largest customer, Marubeni

Marubeni is a designated sourcing agent of a Japanese leisure and casual brand which ranked third in terms of retail value in Japan apparel retail industry in 2015 as stated in the Euromonitor Report. It is also a company dually listed on the Tokyo Stock Exchange and Nagoya Stock Exchange and its principal business includes, among others, the wholesale of fashion apparel garments and accessories. During the Track Record Period, the Group's revenue derived from Marubeni accounted for approximately 43.9%, 50.8% and 54.3% of the Group's total revenue, respectively. The Group has established and maintained over 9 years business relationship with Marubeni.

On 1 March 2015, the Group entered into a master supply agreement ("**Master Supply Agreement**") with Marubeni, pursuant to which the Group agreed to sell and Marubeni agreed to purchase the knitwear products, which have been supplied by the Group in accordance with the specification provided by Marubeni's Client at the agreed purchase price as set out in each purchase order. The Master Supply Agreement does not stipulate any minimum order quantity for the Group's products for a specific period. In addition, the Group is required to procure its suppliers to conform to the product-specific standards and requirements. The term of the Master Supply Agreement became effective for an initial term of one year from the date of Master Supply Agreement and shall be automatically extended for additional periods of one year each unless either party gives the other party not less than 90 days prior notice to terminate the Master Supply Agreement. During the Track Record Period and up to the Latest Practicable Date, the Directors confirm that the Group had not breached any covenants contained in the Master Supply Agreement.

Apart from the Master Supply Agreement, the parties have not entered into any sales agreement or committed any minimum order quantities, which the Directors consider that this is in line with the common practice in the apparel supply management industry. For each transaction, Marubeni will place a purchase order with the Group and the Group will confirm the purchase by issuing a sales confirmation in return. For further information on the typical sales transaction, please refer to the section headed "Business — Customers — Salient terms of a typical sales transaction" in this prospectus.

Pursuant to the terms of the Master Supply Agreement, Marubeni or its client retains exclusive ownership of all rights, title and interests in the intellectual properties of the products produced for them. The Group has the obligations not to infringe their intellectual property rights and will be subject to liability if the Group is in breach of its obligations.

In the same year, the Group was granted the "Best Partner Award" by Marubeni's Client in recognition of the quality of the Group's products. The Directors believe that the Group's firm commitment to provide high quality and reliable services helps strengthening the relationships between the Group and its customers, which would increase sales of the Group.

Pricing strategies

The Group usually determines the price on a cost-plus basis and prices are generally quoted in USD. The Group will generally take in consideration the costs of raw material, the size of the order, the complexity of the product design, the production costs as quoted by the third-party manufacturers, as well as the estimated time required as factors in determining the prices of the Group's products. In view of the different budgets of different customers, the Group will in general provide designs or recommendations that are tailored for the specific customer's budget and preferences.

Please refer to the paragraph headed ''Average selling price and gross profit margin'' under the subsection headed ''Products'' of this section for the average selling prices of the Group's products during the Track Record Period.

Salient terms of a typical sales transaction

The Group does not enter into long-term agreements with its customers and the Directors believe that this is in line with the common practice in the apparel supply chain management industry. In a typical sales transaction, the customer or its sourcing agent will place a purchase order with the Group, and the Group will confirm the purchase by issuing a sales confirmation in return. Set out below are the salient terms of a sales transaction:

(i) ***Product description:***

A brief description of the products, including the product designs and specification, materials to be used, colour and size, is specified.

(ii) ***Order details:***

The number of pieces for each colour and/or size, the unit price and the total amount, are specified.

(iii) ***Payment terms:***

The Group generally grants a credit period of up to 90 days to its major customers based on factors such as years of business relationship with the customers and their reputation and payment history. Alternatively, the Group normally requires the customers to settle in full by letter of credit upon the delivery of goods.

(iv) ***Delivery details:***

The estimated delivery time is specified, which usually ranged from approximately 30 to 171 days from the date of the purchase order. The usual delivery term is FOB. The Group is responsible for the transportation of the goods to the port of shipment and loading costs whilst the customers shall be responsible for costs such as marine freight transport, insurance, unloading, and transportation from the arrival port to the final destination. The risk in and title to the products are passed to the customers upon the arrival and unloading of the products at the shipment port.

(v) ***Other:***

Some of the Group's customers may also specify that certain raw materials, such as tags and labels, shall be sourced from suppliers nominated by the customers.

The Group's policy on design rights

The Group has policies and procedures to protect the intellectual properties of the Group and its customers. The product design sketches and instruction sheets may contain confidential information regarding proprietary product designs of the Group's customers. Such confidential documents for each of the respective customers will be stored in the designated place and only the responsible merchandising team, design staff and authorised personnel are allowed to access such information. The Group's employees are forbidden to reproduce or publicise any information related to the product designs of the Group and/or its customers. Any waste paper containing sketches and/or product designs of the Group or its customers is required to record in the Group's design register and provide to the administrative department for central management before destruction.

During the Track Record Period and up to the Latest Practicable Date, to the best knowledge, information and belief of the Directors, the Directors were not aware of any infringement or potential infringement by any member of the Group of the intellectual property rights owned by any third parties, and no material complaint was received and no claim was made against the Group by its customers in relation to infringement of their intellectual property rights.

Seasonality

The apparel market exhibits seasonality and is subject to dynamic changes in trends and consumers' preferences. The Group generally records higher sales from August to January for the autumn/winter products as the customers have higher demand for knitwear products such as pullovers and cardigans for their autumn/winter collections. The sales generated in these months in aggregate accounted for approximately 71.7% and 68.2% of the Group's total revenue for each of the two years ended 31 March 2016. The Group's operating results for the peak season should not be taken as an indication of the Group's performance for the entire financial year.

Other than seasonality, any unexpected and abnormal changes in climate may affect the sales of the Group's knitwear products which, in turn, may have material adverse impact to the operation and profitability of the Group. For further details, please refer to the section headed "Risk factors — The Group's business is subject to risks related to extreme changes in weather conditions and seasonality trends" in this prospectus.

Sustainability of the Group's business in view of the reliance on major customer

During the Track Record Period, the percentage of the revenue attributable to the Group's five largest customers amounted to approximately 86.9%, 90.4% and 91.0% of the Group's total revenue for the two years ended 31 March 2016 and the four months ended 31 July 2016, respectively, while the percentage of the revenue attributable to the Group's largest customer, Marubeni, amounted to approximately 43.9%, 50.8% and 54.3% respectively for the same period. Please refer to the section headed "Risk factors — The Group relies on several major customers and has not entered into long-term contracts with them. This may materially and adversely affect the Group's business, prospects, financial condition and results of operations" in this prospectus for the customer concentration risk.

Despite the fact that the aforesaid figures during the Track Record Period exhibit certain degree of customer concentration, the Directors are of the view that the Group's reliance on its major customer would not impact on the Group's suitability for the Listing for the following reasons:

(i) the Group has maintained business relationship with Marubeni for more than 9 years. Over the years of collaboration with Marubeni, the Group has accumulated an in-depth understanding of the quality requirements of Marubeni as well as its client, which provides the Group with a competitive edge to secure continuous orders from it. As evidenced by the continuous purchases from Marubeni and the Master Supply Agreement, the Directors believe that the Group and Marubeni have cultivated mutual understanding, trust and smooth operation over years. In 2015, the Group also received the "Best Partner Award" from Marubeni's Client. The Directors believe this demonstrates the Group's consistent and reliable supply of quality products to Marubeni's Client. The Directors believe that the established strategic relationship is beneficial to the business development of both parties by allowing them to focus and leverage on their respective strengths in the industry and benefit from economies of scale.

    According to the Euromonitor Report, in terms of retail value sales in 2015, Marubeni's Client ranked third in the apparel brands in Japan. Marubeni's Client is a wholly-owned subsidiary of a company dually listed on the Tokyo Stock Exchange and the Main Board of the Stock Exchange, the principal business of which is apparel designing and retail business operating in Japan and overseas. According to the interim report for the six months ended 29 February 2016 of the Client's Parent, the Client's Parent plans to accelerate the opening of new stores for Marubeni's Client in Japan and to launch the brand of Marubeni's Client in the Chinese Market. In mid-October 2016, the Client's Parent further announced its plan to open approximately 50 oversea stores for Marubeni's Client in the coming years, of which 2 new stores will be opened in Hong Kong in the first quarter of 2017. The Directors believe that the additional sales points of Marubeni's Client would lead to an increase in the demand of the Group's apparel supply chain management services;

(ii) the Directors recognise that reducing the Group's reliance on its largest customer is critical to achieve sustainable long-term growth. As at 30 November 2016, the Group has sales order on hand in total amount of approximately HK$110.8 million, of which approximately HK$64.5 million was placed by the customers other than Marubeni, representing approximately 58.2% of the total amount of the sales order on hand. Further, the percentage of the Group's revenue contributed by Marubeni has slightly decreased from approximately 54.3 % for the four months ended 31 July 2016 to approximately 50.9% for the eight months ended 30 November 2016.

Leveraging on the Group's track record and experience in the Japan apparel market, the Group will continue to diversify its customer base through extensive sales and marketing activities. In July and October 2016, the Group co-organised two three-day private exhibitions with one of its top five customers for promoting the Group's knitwear products to various brand owners in Japan. As a result of the Group's effort during the exhibitions and various marketing activities, the Group recorded sales amounts from 40 new fashion brands of approximately HK$12.9 million for the eight months ended 30 November 2016. Despite the fact that the aforesaid amount only accounted for approximately 4.1% of the Group's unaudited revenue for the eight months ended 30 November 2016, this demonstrated that the Group has the capability to solicit new businesses from other potential customers as well as to further expand its business through extensive sales and marketing effort to reduce reliance on Marubeni.

In view of the positive feedback on the exhibition, the Directors plan to allocate part of the net proceeds of the Placing to organise private exhibitions as regular events in order to further diversify and expand its customer base. The Group also plans to have its own office and showroom in Japan in order to attract and better serve the new customers who are not willing to travel abroad. Please refer to the section headed "Business — Business strategies" in this prospectus for further details. In view of the Group's swift progress on reduce reliance on its largest customer, the Directors do not foresee any difficulty for the Group to continue expanding its customer base and diverting its revenue sources in the future. The Directors expect the Group's continuous efforts to expand its product mix as well as its customer base would enable the Group to reduce its reliance on Marubeni effectively; and

(iii) the Group has strived to explore new product spectrums and broaden its customer base that have enabled the Group to capture new business opportunities. As at 30 November 2016, the Group has confirmed sales orders for 8 more new fashion brands from its other existing customers, which were the designated sourcing agents of such fashion brand owners. The Directors are of the view that the apparel market in Japan is highly fragmented and therefore, offer enormous opportunities to the Group to expand its business and penetrate into the apparel market in Japan. Going forward, the Group intends to expand and diversify its customer base as well as to cope with the increasing customer base and sales orders by (i) proactively approaching the potential customers; (ii) participating in more trade shows and fashion shows; (iii) broadening its existing products types to include cut-and-sewn knitwear and seamless knitwear to attract potential customers who are focusing on products other than knitwear products; and (iv) enhancing its design and development capabilities. Please refer to the section headed "Business — Business strategies" in this prospectus for further details.

SUPPLIERS

Characteristics of the Group's suppliers

The Group's suppliers include raw material suppliers as well as third-party manufacturers which manufacture all kinds of knitwear products. The Group will engage the third-party manufacturers to manufacture knitwear products including sample and finished products. The Group has established stable and close working relationship with its top five suppliers for a period ranging from 5 to 8 years. During the Track Record Period, the Group engaged approximately 130, 119 and 38 raw material suppliers and approximately 12, 11 and 12 third-party manufacturers, respectively.

Raw material suppliers

The Group's major raw materials are yarn, which are mainly blended with different materials such as cotton, wool, lycra, etc. During the Track Record Period, the Group's key raw material suppliers were mainly located in the PRC and Hong Kong. Apart from yarn, the Group also purchases other raw materials including buttons, zippers and other accessories for the knitwear products. During the Track Record Period, the cost of raw materials and consumable used amounted to approximately HK$90.8 million, HK$77.7 million and HK$15.3 million, representing approximately 27.1%, 20.9% and 18.2% of the Group's total cost of sales, respectively.

During the Track Record Period, the Group did not encounter any material shortage in the supply of the required raw materials from its suppliers.

Third-party manufacturers

All of the Group's knitwear products are produced by third-party manufacturers with manufacturing operations in the PRC and/or Thailand. During the Track Record Period, the subcontracting charges amounted to approximately HK$238.1 million, HK$282.8 million and HK$66.8 million, representing approximately 71.0%, 76.2% and 79.4% of the Group's total cost of sales, respectively. The Group generally procures and provides the raw materials to the third-party manufacturer for the production. Most of the finished products are delivered to Hong Kong before shipment. For those knitwear products manufactured in Thailand, the Group typically requires the third-party manufacturer to source and procure the raw materials as specified by the customers and then export the finished products to the customers directly.

During the Track Record Period, the Group did not experience any material delays by its third-party manufacturers in the delivery of their finished products which caused the Group to suffer any losses or claims.

Location of suppliers

During the Track Record Period, the Group's top suppliers whose manufacturing factories are located in the PRC and/or Thailand. The Group generally liaises with their Hong Kong office to obtain the quotations and finalise purchase orders.

Top five suppliers

Purchase from the Group's top five suppliers for the two years ended 31 March 2016 and the four months ended 31 July 2016 in aggregate accounted for approximately 65.2%, 71.3% and 77.4% of the Group's cost of sales, respectively, while purchase from the Group's largest supplier accounted for approximately 31.7%, 31.0% and 31.1% of the Group's cost of sales, respectively.

Set out below is a breakdown of the Group's cost of sales by top five suppliers of the Group during the Track Record Period:

For the year ended 31 March 2015:

Rank	Supplier	Purchase	As % of total cost of sales
		HK$'000	%
1	Supplier A	106,434	31.7
2	Supplier B	47,581	14.2
3	Supplier C	23,238	6.9
4	Supplier D	21,106	6.3
5	Supplier E	20,500	6.1
	Five largest suppliers combined	218,859	65.2
	All other suppliers	116,501	34.8
	Total cost of sales	335,360	100.0

For the year ended 31 March 2016:

Rank	Supplier	Purchase	As % of total cost of sales
		HK$'000	%
1	Supplier A	115,189	31.0
2	Supplier C	59,580	16.1
3	Supplier D	32,912	8.9
4	Supplier F	29,699	8.0
5	Supplier B	26,936	7.3
	Five largest suppliers combined	264,316	71.3
	All other suppliers	106,743	28.7
	Total cost of sales	371,059	100.0

For the four months ended 31 July 2016:

Rank	Supplier	Purchase	As % of total cost of sales
		HK$'000	*%*
1	Supplier A	26,126	31.1
2	Supplier F	14,962	17.8
3	Supplier C	9,672	11.5
4	Supplier D	7,276	8.7
5	Supplier B	6,966	8.3
	Five largest suppliers combined	65,002	77.4
	All other suppliers	19,056	22.6
	Total cost of sales	84,058	100.0

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, all of the Group's top five suppliers during the Track Record Period are Independent Third Parties. To the best knowledge, information and belief of the Directors, none of the Directors, their close associates, or any Shareholders (which to the knowledge of the Directors owns more than 5.0% of the Company's issued share capital upon completion of the Placing) had any interest (direct or indirect) in any of the Group's five largest suppliers during the Track Record Period.

The table below sets forth the background information of the Group's top suppliers mentioned in the above table:

Supplier	Types of suppliers (third-party manufacturers and raw material suppliers)	Principal products supplied to the Group	Location of manufacturing base	Years of business relationship with the Group	Typical credit terms and payment method
Supplier A	Third-party manufacturer	Knitwear apparel	Thailand	5	30 days by telegraphic transfer
Supplier B	Third-party manufacturer	Knitwear apparel	PRC	8	30 days by cheque
Supplier C	Third-party manufacturer	Knitwear apparel	PRC	8	30 days by cheque
Supplier D	Third-party manufacturer	Knitwear apparel	PRC	6	30 days by cheque
Supplier E	Raw material supplier	Yarn	PRC	8	45 days by cheque
Supplier F	Third-party manufacturer	Knitwear apparel	PRC	7	30 days by telegraphic transfer

Supplier A is a private company incorporated in Macau with limited liability and its manufacturing operations are located in Thailand. Its principal products supplied to the Group include knitwear apparel.

Supplier B is a private company incorporated in Hong Kong with limited liability, its manufacturing operations are located in the PRC. Its principal products supplied to the Group include knitwear apparel.

Supplier C is a private company incorporated in Hong Kong with limited liability, its manufacturing operations are located in the PRC. Its principal products supplied to the Group include knitwear apparel.

Supplier D is a private company established in the PRC with limited liability. Its principal products supplied to the Group include knitwear apparel.

Supplier E is a private company incorporated in Hong Kong with limited liability. Its principal products supplied to the Group include yarn. It belongs to a company in Hong Kong principally carrying on knitwear, garment, knitting machinery and property development businesses.

Supplier F is a private company established in the PRC with limited liability. Its principal products supplied to the Group include knitwear apparel.

Sustainability of the Group's business in view of the reliance on major suppliers

During the Track Record Period, the Group's purchases from its top five suppliers accounted for approximately 65.2%, 71.3% and 77.4% of the Group's cost of sales, respectively. The Group's purchase from Supplier A accounted for approximately 31.7%, 31.0% and 31.1% of the Group's cost of sales respectively during the same period. Please refer to the section headed "Risk factor — The Group is dependent on third parties for the production of apparel products, any disruption in the relationship with the third-party manufacturers or their manufacturing operations could adversely affect the Group's business" in this prospectus for the supplier concentration risk.

Despite the fact that the aforesaid figures during the Track Record Period exhibit certain degree of supplier concentration, the Directors consider that the Group is not reliant on any single supplier because:

(i) the Group does not enter into any long-term supply agreement with its suppliers, instead the Group generally places purchase orders with its suppliers on an order-by-order basis. The Directors consider that this practice is in line with the industry norm and the Group would maintain flexibility in supplier selection;

(ii) it is more cost-effective to allocate production orders to its suppliers for similar products in bulk quantities, which would increase the Group's bargaining power and thereby maintaining the cost of operations at a competitive level;

(iii) it is the Group's business strategy to source from those suppliers who could provide a steady supply of products to the Group at reasonable prices and with quality assurance; and

(iv) the Group engaged approximately 12, 11 and 12 third-party manufacturers, respectively, during each of the Track Record Period which provides flexibility to the Group regarding supplier selection.

While the Group endeavours to maintain the established business relationships with its existing suppliers, the Directors also recognise the importance of expanding its supplier base with a view to sustaining long-term growth. The Directors believe that there are many alternative suppliers available in the market which can supply products at comparable market prices and qualities and that the Group should not have any difficulty in purchasing from the alternative suppliers. The Group will continue to identify and approach suitable suppliers to expand its supplier base as well as to cope with the Group's expansion plan.

Criteria for selection of suppliers

The Group selects the suppliers based on a number of criteria including but not limited to the capacity of the suppliers, pricing, product quality and timely delivery. The Group, in most cases, sources the materials from suppliers or engages the third-party manufacturers after the customers have confirmed their orders. The Group does not rely on a single source of supply for any of its raw materials or manufacturing services. The Directors consider that all the principal materials/services required by the Group can be purchased from a number of alternative suppliers at terms comparables to those of the Group's current suppliers.

Salient terms of a typical purchase transaction

The Group does not enter into any long-term supply agreement with its suppliers. Instead, the Group places purchase/production orders with its suppliers after the customers' orders are confirmed. The Directors believe that such practice is in line with the general practice within the industry. Set out below are the salient terms of typical purchase transaction:

(i) ***Product description:***

A brief description of the products is contained, including, for raw materials, the types of raw materials, quantity and colour; and for finished products, the type of knitwear, style, main materials required, colour and size.

(ii) ***Order details:***

The quantity is specified, i.e., for raw materials, the amount for each type of raw materials; and for finished products, the number of pieces for each colour and/or size. The unit price and the total amount are also specified.

(iii) ***Payment terms:***

The credit terms granted by the Group's top suppliers range from 30 to 45 days. The Group usually settles the payment by cheque or bank transfer.

(iv) ***Delivery details:***

For the purchase of raw materials, the Group usually requires its raw material suppliers to deliver the goods to the third-party manufacturer or the Group's warehouse.

For the purchase of finished products, the Group generally requires its third-party manufacturers to deliver the goods directly to the designated forwarder appointed by the Group's customers.

Sensitivity analysis

For reference purpose, the following table illustrates the sensitivity analysis of the estimated increase/decrease of the Group's profit before tax in relation to general percentage changes to the subcontracting charges with reference to the hypothetical fluctuation rates of 7% and 14%, with all other variables being constant.

Hypothetical fluctuations in subcontracting charges	**–7%**	**-14%**	**+7%**	**+14%**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Increase/(Decrease) in profit before tax				
Year ended 31 March 2015	16,667	33,334	(16,667)	(33,334)
Year ended 31 March 2016	19,798	39,596	(19,798)	(39,596)
Period ended 31 July 2015	2,903	5,806	(2,903)	(5,806)
Period ended 31 July 2016	4,675	9,349	(4,675)	(9,349)
Increase/(Decrease) in profit after tax				
Year ended 31 March 2015	13,917	27,834	(13,917)	(27,834)
Year ended 31 March 2016	16,531	33,062	(16,531)	(33,062)
Period ended 31 July 2015	2,424	4,848	(2,424)	(4,848)
Period ended 31 July 2016	3,903	7,807	(3,903)	(7,807)

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group's cost of raw materials and consumable used on the Group's profits during the Track Record Period. The hypothetical fluctuation rates are set at 10%, which is the maximum fluctuation rate during the Track Record Period, and at 20%, which is the double of the maximum fluctuation rate to illustrate the impacts on the profit in a more extreme scenario:

Hypothetical fluctuations in cost of raw materials and consumable used	**–10%**	**–20%**	**+10%**	**+20%**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Increase/(Decrease) in profit before tax				
Year ended 31 March 2015	9,077	18,154	(9,077)	(18,154)
Year ended 31 March 2016	7,766	15,533	(7,766)	(15,533)
Period ended 31 July 2015	1,475	2,951	(1,475)	(2,951)
Period ended 31 July 2016	1,530	3,060	(1,530)	(3,060)
Increase/(Decrease) in profit after tax				
Year ended 31 March 2015	7,579	15,159	(7,579)	(15,159)
Year ended 31 March 2016	6,485	12,970	(6,485)	(12,970)
Period ended 31 July 2015	1,232	2,464	(1,232)	(2,464)
Period ended 31 July 2016	1,278	2,555	(1,278)	(2,555)

INVENTORY CONTROL

The Group's inventories include raw materials and work in progress:

	As at 31 March		**As at 31 July**
	2015	**2016**	**2016**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	14,950	9,562	8,283
Work in progress	20,004	4,681	8,267
Total	34,954	14,243	16,550

The Group's inventories consisted of raw materials and work in progress. The Group's major raw materials are yarn, which are mainly blended with different materials. Work in progress represented semi-finished products allocated to the third-party manufacturers which are currently under production.

As each customer may adopt different designs and/or specify its own preference for raw materials, the Group, in most cases, sources raw materials and other accessories from its suppliers for production only after the customers have confirmed their orders and their specifications. This allows the Group to avoid excessive procurement of raw materials. As such, the Group normally does not maintain high level of inventory of raw materials.

However, some of the Group's major customers may request for bulk purchase with a shorter delivery time and therefore the Group maintains a certain level of inventory for various types of yarn that are commonly used and/or expected to be popular or commonly accepted based on the anticipated fashion trends. On occasion, when the market price of some raw materials, such as wool or cashmere, is relatively low, the Group may purchase additional inventories of that raw material for use in the future. The Directors consider such practice will allow the Group to keep the raw material on a just-in-time basis and to safeguard against any unexpected delays in the supply of raw materials as well as provide flexibility to the Group for receiving additional and increasing orders with short notices from the customers.

The Directors believe that maintaining appropriate levels of inventory is critical to the Group's business operation and on-time delivery of the Group's products. The Group maintains an inventory management policy whereby a physical inventory count is performed on an annual basis to ensure the accuracy and correctness of stock-in and stock-out information on record. The Group will also carry out an inventory review and an ageing analysis on a regular basis to ensure inventories are properly used and that there is no unnecessary accumulation of inventories of old age.

For each of the two years ended 31 March 2016 and the four months ended 31 July 2016, the Group's average inventory turnover days were 43 days, 24 days and 22 days respectively. For a detailed inventory analysis, please refer to the section headed "Financial information — Inventory analysis" in this prospectus.

INFORMATION SYSTEM

The Group has implemented an ERP system through which the Group is able to monitor the status of its apparel supply chain management services including, product planning, costs management, procurement of raw materials, and logistics. The Directors believe that the use of such data generated from the ERP system allows the Group to manage the process of the customer's order in response to the customers' need and rapidly changing market demand. To ensure the products sold are at the acceptable profit margin, the cost budget for each of the order must be approved by the chief executive officer, before an order can progress to the next stage.

The Directors believe that the ERP system plays an important role in the Group's business operation which streamlines the Group's internal workflow and enables the Group to monitor status at different processes of its business cycle, thereby maximising its operational efficiency.

SALES AND MARKETING

The Group provides apparel supply chain management services for a number of owners or sourcing agents of apparel retail brands and the Directors believe that the Group has established business relationships with its customers due to the delivery of reliable services and high quality products. The merchandising department of the Group is principally responsible for formulating new orders with potential customers, handling enquiries from existing customers, and following up purchase orders. To maintain close relationships with existing customers and foster new business relationships with potential customers of the Group, staff in the merchandising department pays visits to existing customers of the Group in Japan in attempt to keep pace with customers' requirements and development trends and directions. The Group also showcases to potential customers the Group's product designs through face-to-face presentations or by attending exhibitions in Japan.

PRODUCT RETURN AND WARRANTY

All of the Group's knitwear products are subject to final inspections by third-party inspection centres to ensure that the knitwear products are in conformity with the customers' specifications and requirements. The Group does not have a formal product return or warranty policy. Nevertheless, as a responsible supply chain management services provider and in order to maintain the Group's goodwill and the business relationships with its customers, the Group would investigate every incident and offer solutions to its customers to resolve such incident. During the Track Record Period, the Group did not experience any material case of product returns from its customers due to quality issues of the Group's products.

HEDGING

During the Track Record Period, the Group did not engage in any hedging activity.

RESEARCH AND DEVELOPMENT

During the Track Record Period, the Group did not engage in any research and development activity nor incurred any research and development expenses.

OCCUPATIONAL HEALTH AND SAFETY

The Group does not own or operate any manufacturing facilities and therefore the Group is not subject to any manufacturing related safety issues. As required under Hong Kong laws, the Group is required to obtain employees' compensation insurance for its employees. During the Track Record Period, the Group did not make any material claims under its employees' compensation insurance.

ENVIRONMENTAL COMPLIANCE

Since the Group does not own or operate any manufacturing facilities, the Group's operations in Hong Kong are not subject to any specific environmental regulations. As a provider of apparel supply chain management services, the Group engages third-party manufacturers for the production of apparel products for the customers. All of the third-party manufacturers that the Group engaged for the production of the knitwear products during the Track Record Period have manufacturing operations in the PRC and/or Thailand. Information on the third-party manufacturers is set out in the section headed "Business — Suppliers" in this prospectus.

The Group does not have any knowledge that any of the third-party manufacturers engaged during the Track Record Period and as at the Latest Practicable Date, was in breach of any local environmental regulations.

INSURANCE

The Directors believe that the existing insurance coverage is generally adequate to insure against the risks relating to the Group's operations, having taken into account the size and type of the Group's business. The Directors also believe that the insurance coverage is generally in line with the standard commercial practice in the supply chain management industry. The Group's insurance coverage includes employee compensation, personal accident, burglary, fire, any loss or damage to the raw materials inventory, sample products stored within the Group's premises and office. During the Track Record Period and as at the Latest Practicable Date, the Group did not make, or was the subject of, any material insurance claim.

Mandatory provident fund

As required by Hong Kong laws, the Group has enrolled all of its employees in the mandatory provident fund. The Directors confirmed that the Group complied with applicable labour and social welfare laws and regulations in Hong Kong in all material respects, and had made relevant contributions in accordance with such laws and regulations during the Track Record Period.

Social insurances and housing provident fund

According to the Social Insurance Law of the PRC, the Group is required to make social insurance contributions for its employees in the PRC. As at the Latest Practicable Date, the Group maintained social insurance schemes that cover basic pension, medical, work-related injuries, unemployment and maternity expenses for its employees in the PRC. According to the Administrative Regulations on Housing Provident Funds, the Group is also required to make contributions to housing provident fund for its employees in the PRC. As advised by the PRC Legal Advisers, the relevant PRC laws requires an employer to register with the local social insurance agency and the housing provident fund management center within 30 days. Speed Apparel Shenzhen did not file such registrations within 30 days after its establishment. Given that Speed Apparel Shenzhen had filed the relevant registrations in April 2016 and had paid and deposited social insurance premium and housing provident fund for its employer on schedule and in full thereafter, the risks that Speed Apparel Shenzhen will be punished or fined by the relevant administrative department for non-compliance with the aforesaid PRC laws is very low.

LICENSES AND PERMITS

During the Track Record Period and up to the Latest Practicable Date, the Group had obtained all material requisite licenses, approvals and permits required for its operations in Hong Kong and the PRC respectively.

EMPLOYEES

Number of employees by function

As at 31 March 2015, 31 March 2016, 31 July 2016 and the Latest Practicable Date, the Group had a total of 71, 65, 66 and 75 permanent full-time employees respectively. Set out below is the number of employees by function as at 31 March 2015, 31 March 2016, 31 July 2016 and the Latest Practicable Date:

	As at 31 March		As at 31 July	As at the Latest
	2015	2016	2016	Practicable Date
Hong Kong				
Management	4	5	5	5
Design and promotion	6	5	6	6
Merchandising	35	30	29	37
Procurement	7	7	6	7
Accounting	5	5	5	5
Administration and shipping	14	13	14	14
Sub-total	71	65	65	74
PRC				
Administration	—	—	1	1
Sub-total	—	—	1	1
Total	71	65	66	75

Relationship with staff

The Directors consider that the Group has maintained good relationships with its employees. The Directors confirm that the Group has complied with all applicable labour laws and regulations in Hong Kong and the PRC.

The Directors confirm that the Group did not experience any significant problems with its employees or disruption to its operations due to labour disputes nor did the Group experience any difficulties in the retention of experienced staff or skilled personnel during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, there was no labour union established by the Group's employees.

Recruitment policies

The Group generally recruits its employees from the open market mainly through placing recruitment advertisements. The Group recruits employees whom the Directors believe have the relevant skills and working experiences to serve the Group. The Group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the Group's business development.

Training and remuneration policy

The Group enters into separate employment contracts with each of its employees in accordance with the applicable employment laws in Hong Kong and the PRC, depending on the location of work of the employee.

The remuneration package offers to the Group's employees generally includes basic salary, bonuses and other cash allowances or subsidies. The Group determines the salary of its employees mainly based on each employee's qualifications, relevant experience, position and seniority. The Group conducts annual review on salary raises, bonuses and promotions based on the performance of each employee.

The Group provides its employees with on-the-job training and as part of the Group's continuing efforts to provide training to its employees, the Group provides financial support to its employees to attend external courses relevant to their job duties for further improvement in their skills and knowledge. The Group also provides training about knitwear products to the employees in the merchandising department.

PROPERTIES

Leased properties

As at the Latest Practicable Date, the Group leased two properties in Hong Kong and the PRC and their details are set out below:

No.	Location	Gross floor area (approximate)	Term/option	Lessor	Key terms of the tenancy	Usage
1	Flat A, 17/F., Gemstar Tower, 23 Man Lok Street, Hung Hom Kowloon, Hong Kong	6,653 sq.ft.	From 1 February 2016 to 31 January 2019	Firenze Apparel	Monthly rental of HK$100,000 with tenancy period up to 31 January 2019	For godown and ancillary office purpose or other permitted usage
2	深圳市羅湖區東門南路西天俊大廈裙樓三樓3C08 (Room 3C08, 3/F., Tian Jun Annex Building, Dongmen Nan Road, Luohu District, Shenzhen, the PRC)	12 m^2	From 21 January 2017 to 20 January 2018	An Independent Third Party	Monthly rental of RMB1,900 with tenancy period up to 20 January 2018	For office use

In addition to the leased properties above, part of the knitwear products and raw materials of the Group are stored in the general storage warehouse of an independent third party at 33 Tai Yip Street, Kwun Tong, Kowloon, Hong Kong. The average monthly rent for the two years ended 31 March 2016 and the four months ended 31 July 2016 are approximately HK$13,000, HK$7,000 and HK$17,000, respectively. During the Track Record Period, the Group did not experience any difficulty in renewing any lease.

Owned properties

During the Track Record Period and prior to the Business Transfer 1 and the Business Transfer 2 which were both completed on 1 February 2016, the Group owned the Eldex Properties and the Gemstar Property (subject to the existing mortgages). As at the Latest Practicable Date, the Group did not own any property.

INTELLECTUAL PROPERTY RIGHTS

Trademark

As at the Latest Practicable Date, the Group was the registered owner of one trademark in Hong Kong. Details of such trademark are set out in the paragraph headed "Intellectual property rights" in Appendix IV to this prospectus.

Domain name

As at the Latest Practicable Date, the Group had registered one domain name, being **www.speedapparel.com.hk**, in Hong Kong. Details of such domain name are set out in the paragraph headed "Intellectual property rights" in Appendix IV to this prospectus.

NON-COMPLIANCE

The Directors confirm that the Group had complied with all applicable laws and regulations in all material respects in Hong Kong (being the principal jurisdiction in which the Group operates) during the Track Record Period and up to the Latest Practicable Date.

RISK MANAGEMENT AND INTERNAL CONTROL

The Directors recognise the need for risk management and internal control in the Group's strategic and operational planning, day-to-day management and decision making process and are committed to manage and minimise the risks that may impact the continued efficiency and effectiveness of the Group's operations or prevent it from achieving its business objectives.

In preparation of the Listing, the Group had engaged an independent external consulting firm as the Group's internal control adviser (the "**Internal Control Adviser**") in January 2016 to undertake a review on the internal control system on entity-level controls, revenue and receipts, procurement and payments, inventory management, fixed assets management, cost of services and payment, human resources and payroll management, bank and cash management, financial statements closure and reporting, information technology general controls and compliance procedures of certain rules and regulations. The Internal Control Adviser mainly engages in providing a broad range of corporate governance and risk management advisory, internal audit, internal controls and regulatory compliance services to its customers including listed companies and companies preparing for listing in Hong Kong. The Internal Control Adviser after reviewing the internal control system of the Group, issued a report concerning the internal control system of the Group in May 2016.

Major deficiencies in the internal control measures during the Track Record Period

During the Track Record Period, purchases with certain suppliers were paid and some of the sales proceeds entrusted the third party manufacturers to receive were collected in the PRC through one personal bank account under the name of Mr. Ng, an executive Director, in the PRC (the "**Arrangement**"). The suppliers and third party manufacturers involved under the Arrangement were the raw material suppliers located in the PRC and the third party manufacturers were the knitwear manufacturers with manufacturing operations located in the PRC, namely Suppliers B and C, which were two of the Group's top five suppliers for each of the two years ended 31 March 2016. The customers involved under the Arrangement were the PRC subsidiaries of the Group's Japanese customers which were the Group's top five customers for each of the two years ended 31 March 2016. Please refer to the section headed "Business — Customers — Top five customers" for further details.

The following table sets out the number of sales/purchase transactions and their respective transaction amounts under the Arrangement for the two years ended 31 March 2016 and the period from 1 April 2016 and up to the date of cessation of the Arrangement (i.e. 28 June 2016):

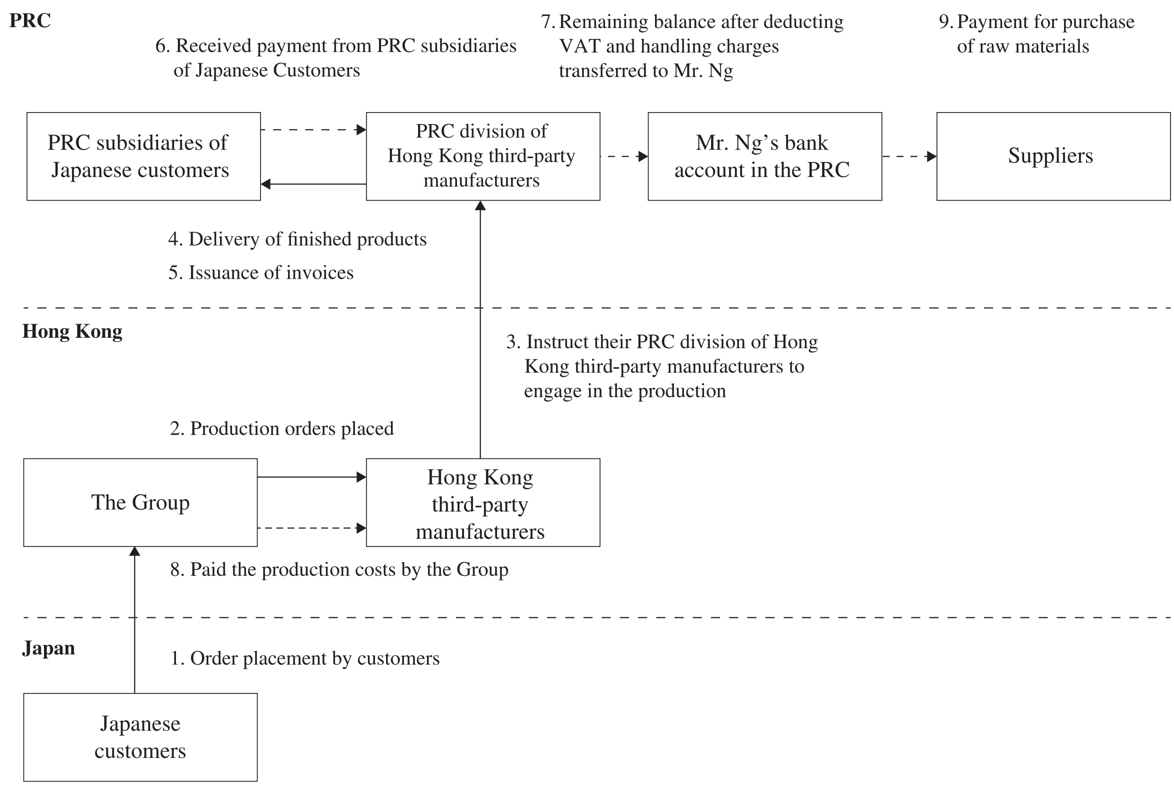
	For the year ended 31 March		For the period from 1 April 2016 and up to the date of cessation of the Arrangement
	2015	2016	
Payments made to the suppliers under the Arrangement			
Number of transactions	501	292	1
Total transaction amount *(approximately RMB'000)*	2,707	1,953	823
Sales proceeds collected under the Arrangement			
Number of transactions	99	29	—
Total transaction amount *(approximately RMB'000)*	3,123	2,058	—

During the Track Record Period, the Group made certain payments to its suppliers under the Arrangement of approximately RMB2.7 million (equivalent to approximately HK$3.2 million) and RMB2.0 million (equivalent to approximately HK$2.4 million) respectively, while the Group collected net sales proceeds (after deducting VAT and handling charges) under the Arrangement of approximately RMB3.1 million (equivalent to approximately HK$3.6 million) and RMB2.1 million (equivalent to approximately HK$2.5 million) respectively. As at 31 March 2015 and 2016, there were approximately HK$833,000 and HK$986,000 kept in this personal bank account, respectively.

Such Arrangement adopted in August 2007 was primarily due to the fact that the Group did not establish its wholly foreign-owned enterprise in the PRC at the material time. Given that some knitwear products ordered by the PRC subsidiaries of the Japanese customers were manufactured and delivered domestically in the PRC and it was the request of the Japanese customers for their PRC subsidiaries to make payment to a corporation established in the PRC in order to obtain the VAT invoices for tax deduction purpose, the Group then entrusted the third party manufacturers with manufacturing operations in the PRC as designated cashiers to receive the sales proceeds in relation to the domestic sales from the PRC subsidiaries of the Group's Japanese customers under the Arrangement and to issue the VAT invoices to the PRC subsidiaries of the Japanese customers. The PRC subsidiaries of the Japanese customers had no objection to adopt the Arrangement. In respect of all these sales proceeds for the domestic sales from the PRC subsidiaries of Japanese customers, they were collected under the Arrangement. For knitwear products manufactured and exported from Thailand, the PRC subsidiaries of the Japanese customers would settle the payment to the Group's Hong Kong bank account in full by telegraphic transfer instead; for all other sales between the relevant Japanese customers and other customers and the Group, they would settle the payments to the Group's Hong Kong bank account in full by letter of credit upon delivery during the Track Record Period.

The Directors were not aware that the Arrangement was not an ideal and proper method as they considered that the use of personal bank account is commonly adopted by a Hong Kong private company in doing business with PRC customers. In preparation for the Listing, the Directors were advised and became aware of such deficiencies in the Arrangement. The Group has promptly sought legal opinions from the PRC Legal Advisers and started to set up its wholly foreign-owned enterprise in the PRC so as to rectify such deficiencies. To ensure the money transfer was in compliance with the applicable PRC laws and regulations, the Group subsequently utilised the remaining bank balances kept in Mr. Ng's bank account for making payments to the Group's suppliers in the PRC after taking the advices from the PRC Legal Advisers. Owing to the fact that the period from February to May is within the traditional slack season of the Group, the remaining bank balances were only fully utilised in June 2016. The Directors confirm that the Group ceased such Arrangement and Mr. Ng closed the said personal bank account in June 2016.

The following chart illustrates the sales and purchase arrangements between the Group, the third-party manufacturers and the PRC subsidiaries of Japanese customers prior to cessation of the Arrangement:



During the Track Record Period, the Group received purchase orders (including price, quantities and the product specifications) from its Japanese customers which include delivery to the PRC subsidiaries of these Japanese customers. After receiving such purchase orders, the Group placed production orders with its Hong Kong third-party manufacturers ("**HK third-party manufacturers**") which in turn instructed their PRC division ("**PRC division manufacturers**") for the production of knitwear products and the PRC division manufacturers delivered the finished products to the PRC subsidiaries of Japanese customers directly. At the request by the Japanese customers, the payment by the PRC subsidiaries of Japanese customers should be made to a corporation in the PRC. Given that the Group did not establish its own entity and had no corporate bank account in the PRC at that time, the Group entrusted the PRC division manufacturers as designated cashiers to receive the sales proceeds from the PRC subsidiaries of its Japanese customers. After delivery of products, the PRC division manufacturers issued the invoices to the PRC subsidiaries of Japanese customers and the PRC subsidiaries of Japanese customers made payment in accordance to the invoices issued by the PRC division manufacturers. Though the payment was made to the PRC division manufacturers as designated cashiers, the Group was still responsible for monitoring the production management throughout the total supply chain management services. After deducting the VAT and handling charges, the PRC division manufacturers would transfer the remaining sales proceeds by way of bank transfer to Mr. Ng's personal bank account. Such sales proceeds were recognised as the Group's revenue based on the sales amounts agreed with the Japanese customers without taking into account the VAT while the handling charges were recognised as the Group's expenses. Handling charges represented the charges paid to the PRC division manufacturer for handling the sales proceeds entrusted by the Group, which was generally calculated based on 10% of the VAT.

The following is a hypothetical example showing the flow of the net sales proceeds collected by the Group under the Arrangement prior to cessation of the Arrangement *(Note 1):*

(1)	The sales amounts agreed between the Group and the Japanese customer for its PRC subsidiary	:	RMB100,000 (sales amounts)
		+	RMB17,000 (VAT) *(Note 2)*
			RMB117,000
	The sales amounts recorded in the Group's account books	:	RMB100,000
(2)	Invoice issued by the PRC division manufacturer to the PRC subsidiary of the Japanese customer	:	RMB117,000
(3)	The PRC subsidiary of the Japanese customer settled the payment to the PRC division manufacturer	:	RMB117,000
(4)	The remaining sales proceeds (after deducting the VAT and handling charges) was transferred to Mr. Ng's personal bank account by the PRC division manufacturer	:	RMB117,000
		–	RMB17,000 (VAT)
		–	RMB1,700 (handling charges: 10% of VAT)
			RMB98,300

Notes:

1. Figures used in this hypothetical example are for illustrative purpose only and do not represent actual transactions recorded by the Group.

2. According to the Interim Regulations of the PRC on Value-added Tax, the rate of VAT is 17%. The VAT is calculated based on the sales amount multiplied by the VAT rate of 17%.

During each of the Track Record Period, cash received through Mr. Ng's bank account represented approximately 0.8% and 0.5% of the Group's total revenue, respectively. The Group would then use the cash in Mr. Ng's bank account to settle certain purchase of the raw materials and make payments to the relevant suppliers. The Group would also pay the production costs to HK third-party manufacturers.

As advised by the Group's tax adviser ("**Tax Adviser**"), given the risks of Speed Apparel and Firenze Apparel being considered as maintaining a permanent establishment due to the Arrangement under the PRC Enterprise Income Tax Law is relatively low, so the risk of the profits of Speed

Apparel and Firenze Apparel being subject to PRC Enterprise Income Tax due to the Arrangement is relatively low. For details of the Tax Adviser's view, please refer to the paragraph headed "View of the PRC Legal Adviser and Tax Adviser on the Arrangement".

The Directors confirm, during the Track Record Period, (i) the balance in Mr. Ng's bank account was only being used for receiving the payments from the PRC division manufacturers who are the designated cashiers and making certain payments to the Group's raw material suppliers in the PRC; (ii) no fund in Mr. Ng's bank account was taken out for personal use; and (iii) no personal fund was deposited into Mr. Ng's bank account. Although the bank account was opened under the name of Mr. Ng, he did not use the balance for personal purposes. To ensure (a) all the funds deposited in Mr. Ng's bank account were used properly and solely for the Group's operation; (b) the segregation of duties of authorising, execution, checking and book keeping function of money transfer under the Arrangement; (c) no incident of fraud, loss of cash, money laundering or embezzlement would occur as a result of the Arrangement; and (d) to reduce the risk of embezzlement under the Arrangement, the Group adopted the following internal control measures for the management of Mr. Ng's bank account prior to the cessation of the Arrangement:

(i) before making any payment to the suppliers under the Arrangement, the accounting staff was required to prepare a payment instruction form indicating the amounts required, the payee and the purpose of the money transfer;

(ii) before obtaining the approval of such money transfer under the Arrangement from Mr. Chan, an executive Director, the payment instruction form was counter-checked against the supplier's invoice by the senior accounting staff;

(iii) all the bank transfers by Mr. Ng via online banking were required to obtain the approval by Mr. Chan, an executive Director, before the execution;

(iv) each of the transactions record executed by Mr. Ng and all documents related to the transactions related to the Arrangement were recorded and kept by the accounting department;

(v) the fund deposit records presented by the PRC division manufacturers were checked against the purchase orders, delivery notes and online statements of Mr. Ng's bank account and were kept and recorded by the accounting department;

(vi) the accounting department would also check the transaction records and balances in the online bank statements against fund receipts records and invoices of suppliers to ensure that all funds transferred out of the personal accounts reconciled with the relevant supporting documents, and thus were authentic and accurate;

(vii) the accounting department counter-checked regularly against the fund receipt records, invoices of suppliers, delivery notes and online statements of Mr. Ng's bank account; and

(viii) monthly reconciliation between the balances of the accounting records and bank statements of Mr. Ng's bank account were performed and reviewed by the accounting department.

Authenticity, accuracy and completeness of the transactions under the Arrangement

To assess the authenticity of the transactions under the Arrangement and the accuracy and completeness of the Group's financial information, the Sponsor has performed the following due diligence work:

(i) obtained and reviewed all statements of Mr. Ng's bank account during the Track Record Period and up to the date when such bank account had been terminated in June 2016;

(ii) checked, on a sampling basis, the statements of Mr. Ng's bank account against the underlying supporting documents to test the completeness and accuracy of the transactions under the Arrangement and found that Mr. Ng's account information had been properly recorded in the Group's account books;

(iii) checked, on a sampling basis, the accounting records against the statements of Mr. Ng's bank account to test the accuracy and existence of the transactions under the Arrangement and found that the accounting records were consistent with the underlying supporting documents and the statements of Mr. Ng's bank account;

(iv) check, on a sampling basis, the walkthrough documents for the sales, purchases and receipts cycle to test the completeness and accuracy of the transactions under the Arrangement and found that the details of purchase orders placed by the Japanese customers for their PRC subsidiaries were substantially the same as those set out in the delivery notes and invoices issued to the PRC subsidiaries of the Japanese customers by the PRC division manufacturers;

(v) the sampling size is over half of the respective purchase and sales amounts for each of the Track Record Period and no inconsistency was found between such accounting records and the underlying documents;

(vi) discussed with the reporting accountants of the Company to understand the sales recognition and collection policies and no material issue was noted;

(vii) discussed with the PRC Legal Advisers and noted that the Arrangement did not violate the relevant PRC laws and regulations, including the PRC Company Law and relevant laws and regulations in relation to enterprise income tax; and

(viii) discussed with the Internal Control Adviser and noted that no material internal control deficiency on sales recognition and settlement of trade receivables was identified based on the result of the review.

In view of the foregoing, the Sponsor is of the view that (i) there is no reasonable ground to believe that the transactions under the Arrangement were not genuine; and (ii) sufficient assurance has been obtained to ensure the completeness, existence and genuineness of the transactions under the Arrangement (including the Group's use of sales proceeds received under the Arrangement) and the completeness of the Group's accounting book and records. Having said that, the Internal Control Adviser and the Sponsor shared the same view that the continued usage of the Arrangement was not ideal and therefore recommended the Group to cease the usage of the Arrangement and implement internal control measure to prevent the use of personal account going forward.

Implication of the cessation of the Arrangement

The Group has established Speed Apparel Shenzhen in February 2016 and the Arrangement was ceased in June 2016. Prior to and subsequent to the cessation of the Arrangement, the Group's Hong Kong office generally takes the lead in the apparel supply chain management services and is responsible for negotiating the design and pricing of the knitwear with the Japanese customers, which in turn will instruct their PRC subsidiaries to place the orders with the Group. Save and except for certain administrative and logistic works, such as directly contracting with the PRC subsidiaries of the Japanese customers and liaising with the third party manufacturers for the delivery of finished products to the PRC customers, were allocated to Speed Apparel Shenzhen, there is no substantial change in the Group's operational model in dealing with the PRC subsidiaries of the Japanese customers after the establishment of Speed Apparel Shenzhen.

Given that the Group sold its knitwear products domestically to the PRC subsidiaries of the Japanese customers through Speed Apparel Shenzhen, the Group is subject to, among others, the PRC enterprise income tax and value added tax under the applicable PRC laws and regulations. Please refer to the section headed "Risk factors — Risks relating to the PRC — The tax rate of any category of tax in the PRC may change from time to time and adversely affect the results of operations of the Group" for further details. In view of the Group's sales derived from the PRC subsidiaries of the Japanese customers represented approximately 0.8%, 0.5% and 0.8% of the Group's total revenue for each of the two years ended 31 March 2016 and the four months ended 31 July 2016, respectively, the Directors consider that the Group's sales to the PRC was comparatively small in term of revenue and therefore the potential tax liabilities to be borne by the Group is minimal and would not have a material adverse impact on the financial position of the Group.

Taking into account the fact that (i) the Group has established Speed Apparel Shenzhen in the PRC in February 2016; (ii) Speed Apparel Shenzhen has opened a corporate bank account in the PRC for its operation in the PRC; (iii) the Group has successfully completed a number of transactions with the PRC subsidiaries of its Japanese customers through Speed Apparel Shenzhen; (iv) the Group has secured certain orders from the Japanese customers for their PRC subsidiaries and has sales orders on hand in total amount of approximately HK$3.2 million as at 31 July 2016; and (v) the Group's sales volume to the PRC customers increased to 15,043 unit of knitwear for the four months ended 31 July 2016 as comparing to 13,757 unit of knitwear for the previous corresponding period, the Directors consider that the cessation of the Arrangement would not have any material adverse change to the Group's financial position and financial performance subsequent to the cessation of the Arrangement.

After obtaining the advices from the Tax Adviser, the Directors confirm that there will not be any transfer pricing issue associated with the business conducted through Speed Apparel Shenzhen since Speed Apparel Shenzhen will directly contract with PRC subsidiaries of Japanese customers and will not engage in any related party transactions.

View of the PRC Legal Advisers and Tax Adviser on the Arrangement

The PRC Legal Advisers are of the view that the relevant PRC laws and regulations, including the PRC Company Law and relevant laws and regulations in relation to import and export and foreign exchange, are not applicable to Speed Apparel and Firenze Apparel, and the risk of the sales proceeds received by Speed Apparel and Firenze Apparel under the Arrangement being subject to PRC enterprise income tax is remote, having considered:

(i) the raw materials were delivered by the suppliers to the third-party manufacturers in the PRC directly and Speed Apparel and Firenze Apparel did not run any import and export activities. The relevant PRC laws and regulations in relation to import and export are not applicable to Speed Apparel and Firenze Apparel;

(ii) Mr. Ng's bank account under the Arrangement served to process cash receipts and payments and there was no cross-border capital out-flow from Mr. Ng's bank account under the Arrangement. The relevant PRC laws and regulations in relation to foreign exchange are not applicable to Speed Apparel and Firenze Apparel;

(iii) pursuant to the Enterprise Income Tax Law of the PRC ("**EIT Law**"), enterprises are classified as tax residents and non-tax residents. An enterprise is considered as a PRC tax resident if it is established in the PRC or the effective management and control of the enterprise are in the PRC. As (1) Speed Apparel and Firenze Apparel were incorporated in accordance with the laws of Hong Kong; and (2) for the reason that the senior management of Speed Apparel and Firenze Apparel stationed in Hong Kong for most of the time during the relevant period, Speed Apparel's and Firenze Apparel's actual management was not in PRC, the chance of Speed Apparel and Firenze Apparel being considered as PRC tax residents is remote;

(iv) pursuant to the EIT Law, an enterprise is considered as a non-PRC tax enterprise if it is incorporated outside the PRC and the effective management and control is outside the PRC, but maintains an establishment or a place in the PRC or derives income sourced from the PRC. As the third-party manufacturers and Mr. Ng were not operating agents to habitually conclude sales contracts, store or deliver goods on behalf of Speed Apparel and Firenze Apparel within the territory of PRC, Speed Apparel and Firenze Apparel did not have any establishments or places in the PRC at the material time. The risk of Speed Apparel and Firenze Apparel being considered as non-PRC tax residents and subject to enterprise income tax is remote;

(v) pursuant to Article 19 of the EIT Law, PRC-sourced income of non-tax residents without an establishment or a place in the PRC generally applies to dividend income, interest income, rental income, royalty income as well as gain on transfer of assets. The bank interest income earned from Mr. Ng's bank account was less than RMB2,000 per year. As the income tax derived from such interest income did not exceed RMB200 per year and should be withheld from the amount paid by the payer as the withholding agent, the risk of Speed Apparel and Firenze Apparel being requested to pay the relevant tax or receive any penalties is remote; and

(vi) pursuant to the relevant PRC Company Law, funds of a company may not be deposited in any personal bank account of directors or senior management for saving purpose. As Speed Apparel and Firenze Apparel were not established in the PRC and Mr. Ng is not a PRC citizen, the relevant PRC Company Law is not applicable to the use of Mr. Ng's bank accounts to save the funds of Speed Apparel and Firenze Apparel.

Furthermore, the Tax Adviser has issued an independent tax opinion as to the potential tax liability arising from the Arrangement. Based on the underlying supporting documents under the Arrangement, the Tax Adviser opines that, given that (i) Speed Apparel and Firenze Apparel did not maintain a fixed place of business in the PRC and the relevant staff were physically present in the PRC for less than 183 days during any 12-month period within the relevant period; (ii) except for the insignificant amount of bank interest earned from Mr. Ng's bank account in the PRC, Speed Apparel and Firenze Apparel did not derive any income as defined under Article 19 of the EIT Law; and (iii) pursuant to Article 5(4) of the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, a fixed place of business solely for the purpose of purchasing goods and of a preparatory or auxiliary character should not be considered as a permanent establishment. Mr. Ng's bank account in the PRC should not be considered as a permanent establishment accordingly, the risk of Speed Apparel and Firenze Apparel being considered as maintaining a permanent establishment due to the Arrangement under the PRC Enterprise Income Tax Law is relatively low. Therefore, the Tax Adviser considers that the risk of the profits of Speed Apparel and Firenze Apparel being subject to PRC Enterprise Income Tax due to the Arrangement is relatively low.

With respect to the legality of the Arrangement, the PRC Legal Advisers are of view that the Arrangement did not breach any relevant PRC laws and regulations based on following reasons:

(i) Speed Apparel and Firenze Apparel engaged the raw material suppliers to deliver raw materials to the third party manufactures in the PRC directly, and Speed Apparel and Firenze Apparel did not engage in any business activities related to import or export in the PRC. Therefore, Speed Apparel and Firenze Apparel did not breach any relevant laws and regulations on import and export in the PRC;

(ii) up to the date of cessation of the Arrangement, the Arrangement did not involve any cross-border circulation of funds and thus did not breach any relevant laws and regulations of PRC on foreign exchange;

(iii) In accordance with the EIT Law, the possibility of Speed Apparel and Firenze Apparel being considered as a non-PRC resident enterprise setting up institutions or establishments in the PRC is slim, therefore the risk of Speed Apparel and Firenze Apparel being considered as a non-PRC resident enterprise setting up institutions or establishments in the PRC by relevant local taxation bureaus for PRC enterprise income tax purpose is remote; and

(iv) as Speed Apparel and Fienze Apparel were not incorporated in the PRC, and Mr. Ng is not a resident of the PRC, the relevant PRC Company Law is not applicable to the use of Mr. Ng's personal bank accounts for payments and receipts of payments of the Group in the PRC.

Internal control measures on the Arrangement

Regarding the major deficiencies identified in the internal control system, the Group had adopted the internal control measures and rectified the weakness in the internal control system as recommended by the Internal Control Adviser since June 2016. The Arrangement ceased and all the balances in Mr. Ng's bank account were fully utilised for settling certain raw material costs for the Group in the PRC and such bank account had been terminated on 28 June 2016. Taking into account the fact that (i) the Group has established Speed Apparel Shenzhen in the PRC in February 2016; (ii) Speed Apparel Shenzhen has obtained all material licenses, permits and certificates which are necessary for its operation in the PRC; (iii) Speed Apparel Shenzhen has opened a corporate bank account in the PRC for its operation in the PRC; (iv) the Group has successfully completed a number of transactions with the PRC subsidiaries of its Japanese customers through Speed Apparel Shenzhen subsequent to the establishment of Speed Apparel Shenzhen; (v) there has been no material adverse change to the Group's financial position and financial performance subsequent to the cessation of the Arrangement; and (vi) the Group has revised its fund management policies to prevent the use of personal accounts for corporate transactions, the Directors believe that there would not be any material financial and operational impact on the Group as a result of the cessation of the Arrangement.

In order to ensure sound implementation of the Group's risk management and internal control policies, the Group has implemented the following enhanced internal control measures recommended by the Internal Control Adviser since June 2016:

- the Group has improved the existing internal control framework by adopting a set of internal control manual and policies, including the corporate governance manual, which covers corporate governance, risk management, operations, legal matters, finance and audit;

- the Group has established the whistleblowing policies which enable the employees, customers, suppliers and external business partners to notify the management if there is any inappropriate action found;
- the Group will provide its Directors, senior management and relevant employees with training, development programmes and updates regarding the legal and regulatory requirements applicable to the business operations of the Group from time to time on an annual basis;
- the Group will, from time to time, engage external legal advisers and seek legal advice on legal matters as applicable to the Group; and
- the Group will continue to engage an internal control adviser after the Listing to review the adequacy and effectiveness of the internal control system, including areas of financial, operational, compliance and risk management.

The Internal Control Adviser has completed follow-up reviews on the enhanced internal control measures in July 2016 and confirmed that all of weaknesses had been rectified. Taking into account the facts that (i) there were no findings of material weakness or material insufficiency in the Group's enhanced internal control system after the follow-up reviews by the Internal Control Adviser; and (ii) the Group has properly implemented the enhanced internal control measures recommended by the Internal Control Adviser, the Directors are of the view that the enhanced internal control measures are adequate and effective for the Group's operations. The Sponsor has reviewed the internal control and follow-up reports prepared by the Internal Control Adviser, discussed with the Internal Control Adviser on the design effectiveness of the enhanced internal control measures and concurred with the Directors' view that the Company's enhanced internal control measures could sufficiently and effectively ensure a proper internal control system of the Group.

Indemnity given by the Controlling Shareholders

Despite the fact that (i) the risk of the sales proceeds received by Speed Apparel and Firenze Apparel under the Arrangement to be taxable is remote; and (ii) Speed Apparel and Firenze Apparel under the Arrangement are the predecessors which do not form part of the Group, the Controlling Shareholders have undertaken to indemnify the Group against all tax liabilities arising from Speed Apparel and Firenze Apparel under the Arrangement. Please refer tax to the section headed "Statutory and general information — Other information — Estate duty, tax and other indemnity" for further details.

LITIGATIONS AND CLAIMS

The Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, the Group was not involved in any litigation, arbitration, claim of material importance, and no litigation, arbitration or claim is known to the Directors to be pending or threatened by or against the Group that would have a material and adverse effect on the results of operations or financial condition.