



# Reach New Holdings Limited 新達控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8471

## Share Offer

Sole Sponsor



Alliance Capital Partners Limited  
同人融資有限公司

Joint Bookrunners



Alliance Capital Partners Limited  
同人融資有限公司



鼎成證券有限公司  
GRANSING SECURITIES CO., LIMITED

Joint Lead Managers



Alliance Capital Partners Limited  
同人融資有限公司



鼎成證券有限公司  
GRANSING SECURITIES CO., LIMITED



國泰君安國際  
GUOTAI JUNAN INTERNATIONAL

# IMPORTANT

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



## Reach New Holdings Limited

### 新達控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

## LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Number of Offer Shares : 200,000,000 Shares  
Number of Public Offer Shares : 20,000,000 Shares (subject to reallocation)  
Number of Placing Shares : 180,000,000 Shares (subject to reallocation)  
Offer Price : Not more than HK\$0.34 per Offer Share and  
expected to be not less than HK\$0.26 per  
Offer Share (payable in full on application  
plus brokerage of 1%, SFC transaction  
levy of 0.0027% and Stock Exchange  
trading fee of 0.005%, subject to refund)  
Nominal value : HK\$0.01 per Share  
Stock code : 8471

### Sole Sponsor



Alliance Capital Partners Limited  
同人融資有限公司

### Joint Bookrunners



Alliance Capital Partners Limited  
同人融資有限公司

鼎成證券有限公司  
GRANSING SECURITIES CO., LIMITED

### Joint Lead Managers



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同人融資有限公司

鼎成證券有限公司  
GRANSING SECURITIES CO., LIMITED

國泰君安國際  
GUOTAI JUNAN INTERNATIONAL

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). Neither the Securities and Futures Commission nor the Registrar of Companies in Hong Kong takes any responsibility as to the contents of this prospectus or any of the other documents referred to above.

Prospective investors should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the matters discussed in the section headed "Risk factors" in this prospectus before making any investment decision in relation to our Company.

The Offer Price will not be more than HK\$0.34 per Offer Share and is expected to be not less than HK\$0.26 per Offer Share unless otherwise announced. The Joint Bookrunners (for themselves and on behalf of the other Underwriters) may, with the consent of our Company, reduce the indicative Offer Price range below that stated in this prospectus at any time prior to the Price Determination Date, which is expected to be on or around Monday, 10 July 2017, or such other date as may be agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the other Underwriters). In such case, our Company will, as soon as practicable following the decision to make such reduction, publish the notice of such change on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of our Company at [www.sthl.com.hk](http://www.sthl.com.hk).

The final Offer Price is expected to be determined by the Price Determination Agreement to be entered into between our Company and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) on the Price Determination Date. If, for any reason, our Company and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) are unable to reach any agreement on the Offer Price by the Price Determination Date, the Share Offer will not become unconditional and will lapse immediately.

Prospective investors of the Offer Shares should note that the Joint Bookrunners (for themselves and on behalf of the other Underwriters) has the right, in its sole and absolute discretion, to terminate the obligations of the Underwriters under the Underwriting Agreements upon the occurrence of any of the events set out in the section headed "Underwriting — Underwriting arrangements and expenses — The Public Offer — Grounds for termination" in this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Joint Bookrunners (for themselves and on behalf of the other Underwriters) terminate the obligations of the Underwriters under the Underwriting Agreements in accordance with its terms, the Share Offer will not become unconditional and will lapse immediately.

## CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

## EXPECTED TIMETABLE

2017<sup>(1)</sup>

Latest time to complete electronic applications under the HK eIPO White Form service through the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> <sup>(2)</sup> .....	11:30 a.m. on Friday, 7 July
Application lists of the Public Offer open <sup>(3)</sup> .....	11:45 a.m. on Friday, 7 July
Latest time to lodge <b>WHITE</b> and <b>YELLOW</b> Application Forms and to give <b>electronic application instruction</b> to HKSCC <sup>(4)</sup> .....	12:00 noon on Friday, 7 July
Latest time to complete payment of <b>HK eIPO White Form</b> applications by effecting internet banking transfer(s) .....	12:00 noon on Friday, 7 July
Application lists of the Public Offer close <sup>(3)</sup> .....	12:00 noon on Friday, 7 July
Expected Price Determination Date <sup>(5)</sup> .....	at or before 5:00 p.m. on Monday, 10 July
Announcement of the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer, the basis of allocation of the Public Offer Shares to be published (a) on the website of our Company at <a href="http://www.sthl.com.hk">www.sthl.com.hk</a> and (b) the website of the Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> on or before .....	Thursday, 20 July
Results of allocations in the Public Offer (with successful applicants' identification document numbers, where applicable) to be available through a variety of channels .....	Thursday, 20 July
Results of allocations in the Public Offer will be available at <a href="http://www.tricor.com.hk/ipo/result">www.tricor.com.hk/ipo/result</a> with a "search by ID number/Business Registration Number" function from .....	Thursday, 20 July
Despatch/Collection of share certificates in respect of wholly or partially successful applications pursuant to the Public Offer on or about <sup>(6)(7)</sup> .....	Thursday, 20 July
Despatch/Collection of <b>HK eIPO White Form</b> e-Auto Refund payment instructions/refund cheques in respect of wholly successful applications if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Public Offer on or about <sup>(7)(8)</sup> .....	Thursday, 20 July
Dealings in the Shares on GEM to commence at 9:00 a.m. on .....	Friday, 21 July

## EXPECTED TIMETABLE

*The application for the Share Offer will commence on Friday, 30 June, 2017 through Friday, 7 July, 2017, being slightly longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Stock Exchange trading fees) will be held by the receiving bank on behalf of the Company and the refund monies, if any, will be returned to the applicants without interest on Thursday, 20 July, 2017. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Friday, 21 July, 2017.*

### Notes:

1. In this prospectus, unless otherwise stated, all times and dates refer to Hong Kong local times and dates.
2. You will not be permitted to submit your application through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application money) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a “black” rainstorm warning signal or a tropical cyclone warning signal number 8 or above is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 7 July 2017, the application lists will not open on that day. For further information please refer to the section headed “How to apply for Public Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this prospectus.
4. Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed “How to apply for Public Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
5. The Price Determination Date is scheduled on Monday, 10 July 2017 (or such later date as agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters)). If the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on the Price Determination Date, or such later date or time as may be agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Share Offer will not become unconditional and will lapse.
6. Share certificates for the Offer Shares are expected to be issued on or about Thursday, 20 July 2017 but will only become valid certificates of title provided that the Share Offer becomes unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms before 8:00 a.m. on the Listing Date. Investors who trade the Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.
7. Applicants who have applied on **WHITE** Application Forms or through **HK eIPO White Form** service for 1,000,000 or more Public Offer Shares under the Public Offer may collect their refund cheques and share certificates (if applicable) in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited from 9:00 a.m. to 1:00 p.m. on Thursday, 20 July 2017. Applicants being individuals who are eligible for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are eligible for personal collection must attend by their authorised representatives bearing a letter of authorisation from their corporation stamped with the corporation’s chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, identification and documents (where applicable) acceptable to our Hong Kong Branch Share Registrar.

Applicants who apply with **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer may collect their refund cheques (where relevant) in person but may not collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

## EXPECTED TIMETABLE

Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post and at the own risk of the applicants shortly after the expiry of the time for collection at the date of despatch of refund cheque as described in the section headed “How to apply for Public Offer Shares — 14. Despatch/Collection of share certificates and refund monies” in this prospectus.

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

Investors may obtain a printed copy of this prospectus, free of charge, during normal business hours from any of the designated branches of the receiving bank and the designated offices of the Sole Sponsor as set out in the section headed “How to apply for Public Offer Shares” in this prospectus. An electronic version of this prospectus (which is identical to the printed prospectus) can be accessed and downloaded from the websites of our Company at [www.sthl.com.hk](http://www.sthl.com.hk) and the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

Distribution of this prospectus into any jurisdiction other than Hong Kong may be restricted by law. Persons who come into possession of this prospectus (including agents, custodians, nominees and trustees) should inform themselves of, and observe, any such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction.

For details of the structure of the Share Offer, including the conditions of the Share Offer, and the procedures for application for the Public Offer Shares, please refer to the sections headed “Structure and conditions of the Share Offer” and “How to apply for Public Offer Shares” in this prospectus, respectively.

If the Share Offer does not become unconditional or is terminated in accordance with its terms, the Share Offer will not proceed. In such case, our Company will make an announcement as soon as practicable thereafter.

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*You should rely only on the information contained in this prospectus to make your investment decision. Our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our/their respective directors, officers, employees, agents or representatives, or any other person or party involved in the Share Offer have not authorised anyone to provide you with information which is different from what is contained in this prospectus. Any information or representation not contained or made in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our/their respective directors, officers, employees, agents or representatives, or any other person or party involved in the Share Offer.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus and therefore does not contain all the information which may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this section are defined in the section headed “Definitions and glossary” in this prospectus.*

### OVERVIEW

We are an established labelling solution provider and a one-stop garment accessories manufacturer and supplier based in the PRC. We mainly engage in the production of three types of products, which are (i) printed products (e.g. hangtags, price tags and stickers), (ii) woven labels (e.g. woven brand labels, woven size labels and badges) and (iii) printed labels (e.g. printed brand labels, printed size labels and care content labels). We also source and sell other garment accessories, such as tapes, hanging tablets, string locks, leather badge, buttons and metal products, to our customers in the PRC. Our customers include (i) garment brand companies, (ii) sourcing companies designated by the garment brand companies and (iii) garment manufacturers in the PRC.

A breakdown on revenue of our Group by customer types based on the amounts of our direct sales to each customer type for FY2015 and FY2016 is summarised as below:

Customer types	FY2015		FY2016	
	RMB'000	%	RMB'000	%
Garment brand companies	1,462	1.5	4,454	4.2
Sourcing companies each designated by a garment brand company <sup>(Note 1)</sup>	14,515	15.2	15,207	14.5
Garment manufacturers <sup>(Note 2)</sup>	<u>79,632</u>	<u>83.3</u>	<u>85,538</u>	<u>81.3</u>
<b>Total</b>	<u><u>95,609</u></u>	<u><u>100.0</u></u>	<u><u>105,199</u></u>	<u><u>100.0</u></u>

*Note 1:* To the best knowledge of our Directors, none of these garment brand companies or their garment manufacturers placed order directly with us.

*Note 2:* Some garment manufacturers may have their own brands but to the best knowledge of our Directors, they perform manufacturing function. The revenue derived from such garment manufacturers amounted to approximately RMB1.5 million and RMB1.7 million for FY2015 and FY2016, respectively.

## SUMMARY

Our Directors believe that our business relationship with the garment brand companies and their designated sourcing companies is a key factor to our success in this industry. During the Track Record Period, we served over seven major garment brand companies and two sourcing companies contributing over 85% of our total revenue, which covered not less than 11 overseas brands, 11 PRC brands and four PRC and Hong Kong brands; those garment brand companies and sourcing companies may place orders with us either directly or through garment manufacturers. The table below is a breakdown of our revenue during the Track Record Period by those seven major garment brand companies and two sourcing companies, which has comprised the aggregate sales amount to each of them who placed orders to us either directly or through garment manufacturers:

<b>Garment brand companies/ sourcing companies</b>	<i>Note</i>	<b>FY2015</b>		<b>FY2016</b>	
		<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Customer A	(1) and (2)	28,348	29.6	27,299	26.0
Jeanwest Apparels (China) Company Limited	(3)	27,034	28.3	23,595	22.4
Company — 4	(3)	11,418	12.0	13,125	12.5
Company — 2	(3)	15,975	16.7	10,628	10.1
Company — 1	(1) and (3)	1,358	1.4	6,754	6.4
Customer F	(4)	—	—	2,738	2.6
Company — 5	(5)	4,151	4.3	2,405	2.3
Customer I	(5)	184	0.2	1,733	1.6
Company — 3	(3)	1,323	1.4	1,600	1.5
Others		5,818	6.1	15,322	14.6
<b>Total</b>		95,609	100.0	105,199	100.0

*Notes:*

1. It refers to a sourcing company acting solely on behalf of its respective garment brand company amongst the transactions with our Group.
2. The aggregate sales amount is calculated by summing up the revenue generated from Customer A directly, which amounted to RMB14.5 million for FY2015 and RMB15.2 million for FY2016, and Customer A's indirect order through its designated garment manufacturers. To the best knowledge of our Directors, as a measure of quality control, this sourcing company placed some orders with us directly in order to monitor the quality of our products, and in other instances through designated garment manufacturers. For details of the order arrangements, please refer to the section headed "Financial Information — Period to Period Comparison of Results of Operations — Distribution and selling expenses" in this prospectus.
3. The aggregate sales amount is calculated by summing up the sales to the designated garment manufacturers.
4. The sales amount represents the sales to the garment brand company directly.
5. The aggregate sales amount is calculated by summing up the sales to both the garment brand company and its designated garment manufacturers. To the best knowledge of our Directors, as a measure of quality control, these garment brand companies placed some orders with us directly in order to monitor the quality of our products, and in other instances through designated garment manufacturers.

## SUMMARY

For details of the above seven major garment brand companies and two sourcing companies, please refer to the section headed “Business — Competitive strengths” in this prospectus.

For FY2015 and FY2016, we generated a total revenue of approximately RMB95.6 million and RMB105.2 million, respectively, while our net profit amounted to approximately RMB6.1 million and RMB9.6 million, respectively. A breakdown on revenue, sales volume and average selling price of our Group by product types for FY2015 and FY2016 is summarised as below:

Product types	FY2015				FY2016			
	Revenue		Sales volume	Average selling price	Revenue		Sales volume	Average selling price
	<i>RMB'000</i>	<i>%</i>	<i>Units in thousands</i>	<i>RMB</i>	<i>RMB'000</i>	<i>%</i>	<i>Units in thousands</i>	<i>RMB</i>
Printed products	49,828	52.1	391,293	0.127	51,400	48.9	452,690	0.114
Woven labels	28,428	29.7	236,259	0.120	28,395	27.0	256,665	0.111
Printed labels	13,664	14.3	150,201	0.091	19,741	18.8	208,907	0.095
Others <sup>(Note)</sup>	<u>3,689</u>	<u>3.9</u>	N/A	N/A	<u>5,663</u>	<u>5.3</u>	N/A	N/A
<b>Total</b>	<u><u>95,609</u></u>	<u><u>100.0</u></u>			<u><u>105,199</u></u>	<u><u>100.0</u></u>		

*Note:* Others include tapes, hanging tablets, string locks, leather badges, buttons and metal products.

### Gross profit and gross profit margin

The table below sets forth a breakdown of our Group’s gross profit and gross profit margin during the Track Record Period by product types:

#### Product types

Product types	FY2015		FY2016	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Printed products	17,241	34.6	19,239	37.4
Woven labels	9,435	33.2	10,341	36.4
Printed labels	4,567	33.4	8,597	43.5
Others <sup>(Note)</sup>	<u>653</u>	<u>17.7</u>	<u>1,447</u>	<u>25.6</u>
<b>Total</b>	<u><u>31,896</u></u>	<u><u>33.4</u></u>	<u><u>39,624</u></u>	<u><u>37.7</u></u>

*Note:* Others include tapes, string locks, leather badge, buttons and metal products.

## SUMMARY

Our gross profit increased from approximately RMB31.9 million for FY2015 to approximately RMB39.6 million for FY2016, representing an increase of approximately RMB7.7 million or 24.1%. Our gross profit margin increased from approximately 33.4% for FY2015 to approximately 37.7% for FY2016. Such increase of gross profit and gross profit margin was mainly due to overall increase in gross profit margin from all our product types, which was mainly due to (i) the increase in revenue which was contributed by the increase in sales volume (in terms of units sold) for our printed products, woven labels and printed labels and (ii) the decrease of subcontracting costs for FY2016 as we had ceased the subcontracting arrangements with our related parties in FY2016.

### COMPETITIVE STRENGTHS

With over 15 years of operating history in manufacturing and sale of garment accessories, our Directors believe that we have the following competitive strengths: (i) we have established long-standing working relationship with different garment brand companies and the designated sourcing companies; (ii) we supply a wide range of garment accessories; (iii) we provide value-added services including providing guidance on design and data accuracy, intellectual property protection, data management and logistic management; and (iv) we have an experienced and professional management team. For further details, please refer to the section headed “Business — Competitive strengths” in this prospectus.

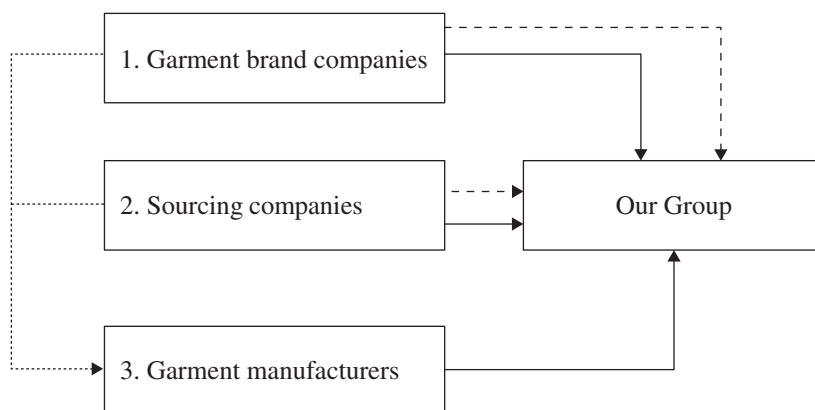
### BUSINESS STRATEGIES

Our overall business objective is to strengthen our position as an established labelling solution provider and a one-stop garment accessories manufacturer and supplier in the PRC. To achieve this objective, we have formulated the following major business strategies: (i) upgrading our production facilities and digital printing technology by acquiring more printing machines; (ii) developing the capability of applying RFID technology, which is widely adopted in the U.S. and Western Europe to better track and control the location of products; (iii) enhancing our heat transfer printing production facilities; (iv) upgrading our information technology systems by integrating our existing online system into a new ERP system; and (v) expanding our sales and marketing department. For further details, please refer to the section headed “Business — Business strategies and future plans” in this prospectus.

## SUMMARY

### OUR BUSINESS MODEL

The diagram below shows our typical business model as well as the business relationship among the parties:



Notes:

- > Placing orders
- - - -> Providing design and specification of products
- .....> Providing list of selected suppliers

Our customers can choose to directly place orders to us or they may instruct garment manufacturers in the PRC to place their orders with us. As their selected supplier, we receive designs and specifications from the garment brand companies and the designated sourcing companies and manufacture the products accordingly. Further, we also provide various value-added services to our customers in each of the pre-production stage, the production stage and the post-production stage.

### OUR CUSTOMERS

For FY2015 and FY2016, sales to our Group's five largest customers accounted for approximately 23.9% and 23.1% of our total revenue, respectively, while sales to our single largest customer accounted for approximately 15.2% and 14.5% of our total revenue, respectively. We have developed solid customer base with some garment brand companies and sourcing companies as we have established more than 10 years of business relationship with them. For further details of our major customers, please refer to the section headed "Business — Our customers" in this prospectus.

### OUR SUPPLIERS

We source our major raw materials, namely, paper, yarn and ribbon from our suppliers in the PRC.

For FY2015 and FY2016, our purchase of materials and services (including subcontracting services) from our five largest suppliers accounted for approximately 54.1% and 36.6% of our total purchase of materials and services (including subcontracting services), respectively, while that from our single largest supplier accounted for approximately 25.6% and 9.6% of our total purchase of materials and services (including subcontracting services), respectively.

## SUMMARY

We engage subcontractors to conduct certain sourcing, production and finishing and packaging procedures (i) which we consider as more labour intensive, (ii) which involve technologies, machineries or licences that our Group did/does not have, (iii) to accommodate specific requirements of customers and/or (iv) for better time management and efficiency when required. Approximately RMB8.1 million and RMB3.7 million, representing approximately 12.8% and 5.6% of our cost of sales, were paid to these subcontractors in FY2015 and FY2016, respectively. We place our orders with our subcontractors on a case-by-case basis. Our Directors consider that our Group did/does not have undue reliance on any of our subcontractors.

### PRINCIPAL RISK FACTORS

Our Group's business and financial performance may be affected by a number of factors. Some of the major risks that may materially and adversely affect our business, financial condition and results of operations are set out below:

- It is difficult for us to forecast future order quantities as we have not entered into long-term contracts with our customers, who may vary the volume of purchase orders from time to time.
- Our revenue is subject to the demand from our customers and substantial reduction in demand from them can materially and adversely affect our financial position.
- We are subject to credit risk of different customers and there is no assurance that our customers will always settle their outstanding balance to us in a timely manner.
- We have not entered into any long-term contract with our suppliers and we may not be able to obtain a stable supply of raw materials at comparable terms.
- Fluctuation in the prices of raw materials may materially and adversely affect our business, financial condition and results of operations.
- Our business requires a large number of labour and if the shortage of labour or increasing cost of labour in the PRC persist, our financial position and results of operation would be materially and adversely affected.

For a detailed discussion of the risk factors, please refer to the section headed "Risk factors" in this prospectus.

### INDUSTRY AND COMPETITIVE LANDSCAPE

According to the F&S Report, there are more than thousands of garment accessories manufacturers which focus on the business of printed products, woven labels and printed labels in the PRC. Accordingly, as of 2016, the PRC garment accessories industry was relatively fragmented, with the top five players only occupied about 9.2% of the total market in terms of sales revenue. The sales revenue of our Group in 2016 took a market share of 0.9% and ranked the seventh place in the PRC garment accessories market.

## SUMMARY

### SHAREHOLDERS' INFORMATION

Our Controlling Shareholders are Neo Concept and Mr. Lam, who is our founder, chairman and non-executive Director of our Group. Immediately following the completion of the Share Offer and the Capitalisation Issue (but without taking into account the options that may be granted under the Share Option Scheme), Neo Concept and Mr. Lam shall be directly or indirectly interested in 75% of the issued share capital of our Company. None of our Controlling Shareholders, our Directors and their respective close associates have an interest in a business apart from our Group's which compete or may compete with the business of our Group and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules. Although Mr. Lam was interested in other companies engaging in the manufacture and sale of garment accessories during the Track Record Period, Mr. Lam and his close associate have already disposed of their interests in these companies. For further details, please refer to section headed "Relationship with Controlling Shareholders" in this prospectus.

Our Group has entered into certain transactions with a party which is a connected person of our Company, which will continue after the listing. For details, please refer to the section headed "Connected transactions" in this prospectus.

### KEY OPERATIONAL AND FINANCIAL DATA

The following table sets forth a summary of our consolidated results of our Group during the Track Record Period, which have been extracted from, and should be read in conjunction with the section headed "Financial information" in this prospectus and the financial information included in the Accountants' Report set forth in Appendix I to this prospectus, including the notes thereto.

#### Highlights of consolidated statement of profit or loss and other comprehensive income

	<b>FY2015</b>	<b>FY2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	95,609	105,199
Cost of sales	<u>(63,713)</u>	<u>(65,575)</u>
<b>Gross profit</b>	31,896	39,624
Other income and gains	138	1,371
Distribution and selling expenses	(5,602)	(5,036)
Administrative expenses	(17,736)	(18,319)
Listing expenses	<u>—</u>	<u>(2,294)</u>
<b>Profit before tax</b>	8,696	15,346
Income tax expense	<u>(2,582)</u>	<u>(5,715)</u>
<b>Profit and total comprehensive income for the year</b>	<u><u>6,114</u></u>	<u><u>9,631</u></u>

Our revenue increased from approximately RMB95.6 million in FY2015 to RMB105.2 million in FY2016, mainly due to (i) the increase in sales volume (in terms of units sold) slightly offset by the decrease in average selling price per unit sold for our printed products and woven labels; (ii) the

## SUMMARY

increase in both of sales volume and average selling price per unit sold for printed labels; and (iii) the increase in sales by approximately RMB2.7 million in FY2016 to Customer F for FY2016, which was a new customer and became our second largest customer in that year.

For analysis of our gross profit and gross profit margin, please refer to the paragraph headed “Overview — Gross profit and gross profit margin” in this section.

### Highlights of consolidated statement of financial position

	<b>As at 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Assets and liabilities</b>		
Non-current assets	24,646	21,100
Current assets	39,908	46,290
Current liabilities	<u>(29,707)</u>	<u>(21,912)</u>
Net current assets	<u>10,201</u>	<u>24,378</u>
Non-current liability	<u>—</u>	<u>(1,000)</u>
<b>Net assets</b>	<u><u>34,847</u></u>	<u><u>44,478</u></u>

Our net current assets increased by approximately RMB14.2 million from 31 December 2015 to 31 December 2016. This was due to (i) an increase in trade receivables of approximately RMB3.8 million as a result of our increased sales during FY2016; and (ii) an increase in bank balances and cash of approximately RMB10.0 million.

### Highlights of consolidated statement of cash flows

	<b>As at 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Operating cash flows before movement in working capital	12,275	19,305
Net cash generated from operating activities	11,930	8,746
Net cash (used in) from investing activities	(10,849)	9,755
Net cash from (used in) financing activities	<u>3,327</u>	<u>(8,454)</u>
Net increase in cash and cash equivalents	4,408	10,047
Cash and cash equivalents at the beginning of the year	<u>8,853</u>	<u>13,261</u>
Cash and cash equivalents at the end of the year	<u><u>13,261</u></u>	<u><u>23,308</u></u>



## SUMMARY

Cash and cash equivalents has increased by approximately RMB10.0 million from FY2015 to FY2016 mainly due to the (i) net cash generated from operating activities of approximately RMB8.7 million and (ii) net cash from investing activities of RMB9.8 million mainly resulted from disposal of wealth management products.

### Key financial ratio

	<b>FY2015/ As at 31 December 2015</b>	<b>FY2016/ As at 31 December 2016</b>
Current ratio	1.3 times	2.1 times
Quick ratio	1.3 times	2.0 times
Net profit margin	6.4%	9.2%
Returns on equity	17.6%	21.7%
Return on assets	9.5%	14.3%

For further details of our key operational and financial data, please refer to the section headed “Financial information — Selected key financial ratios” in this prospectus.

### LISTING EXPENSES

Our Directors expect that our total Listing expenses, which are non-recurring in nature, will amount to approximately HK\$22.4 million (assuming the Offer Price of HK\$0.30 per Offer Share, being the mid-point of the indicative Offer Price range stated in this prospectus). Out of the total HK\$22.4 million of Listing expenses, approximately HK\$2.7 million had been recognised in profit or loss in FY2016. Our Directors expect to recognise approximately HK\$11.9 million in our Group’s profit and loss accounts for the year ending 31 December 2017 and the remaining estimated Listing expenses of approximately HK\$7.8 million will be deducted from equity upon the Listing. Accordingly, the financial results of our Group for the year ending 31 December 2017 are expected to be significantly affected by the estimated Listing expenses. For further details, please refer to the section headed “Financial information — Listing expenses” in this prospectus.

### RECENT DEVELOPMENT

Based on our Group’s unaudited consolidated management accounts prepared by our Directors for the four months ended 30 April 2017, our total revenue increased by approximately 14.9% for the four months ended 30 April 2017 compared to the same period in 2016, as compared to the industry growth rate of 9.7% in 2016 as stated in the F&S Report. Our Directors believe that the PRC garment accessories market is likely to have continuous growth in 2017. Our gross profit margin for the two periods were at similar level.

Profit of our Group in FY2017 may potentially decrease as compared to that in FY2016 since our Group has not recorded any gain on disposal of properties, plant and equipment, being non-recurring in nature, for the four months ended 30 April 2017, apart from the impact of the listing expenses as mentioned under the paragraph headed “Listing expenses” in this section.

## SUMMARY

Regarding our business development effort, we have obtained approval from a garment brand company which is a new customer and a new brand to our Group to commence trial production in late February 2017, which then started to process orders by the garment manufacturers designated by this garment brand company in March 2017. This garment brand company was founded in 1980 in Hong Kong. It first introduced its own brand in 1985 and was positioned as a specialty clothing chain distributing men's and women's career wear. It is currently a multi-brand specialty retailer offering an assortment of men's and women's apparel and accessories with over 700 outlets covering Hong Kong, Macau, PRC, and a few countries in South East Asia. According to the order projections provided by this garment brand company, our projected revenue from this garment brand company for 2017 is expected to be around HK\$2.0 million.

### **NO MATERIAL ADVERSE CHANGE**

Save as disclosed in the paragraph headed "Listing expenses" in this section, our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2016 (being the date to which the latest audited consolidated financial statements of our Group were prepared).

### **FUTURE PLANS AND USE OF PROCEEDS**

We estimate that the net proceeds of the Share Offer which we will receive, assuming an Offer Price of HK\$0.30 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$37.6 million, after deduction of the underwriting fees and commissions and other estimated professional fees and expenses payable by us in connection with the Share Offer. We currently intend to use such net proceeds of the Share Offer as follows:

- approximately 45.2% or HK\$17.0 million for upgrading our production facilities and digital printing technology;
- approximately 8.0% or HK\$3.0 million for developing the application of RFID technology to our products;
- approximately 16.0% or HK\$6.0 million for enhancing our heat transfer printing production facilities;
- approximately 14.1% or HK\$5.3 million for upgrading our information technology systems;
- approximately 8.0% or HK\$3.0 million for the expansion of our sales and marketing department; and
- approximately 8.7% or HK\$3.3 million for general working capital.

For details on how we plan to apply the net proceeds from the Share Offer, please refer to the section headed "Future plans and use of proceeds" in this prospectus.

### **APPLICATION FOR THE SHARE OFFER**

The application for the Share Offer will commence on Friday, 30 June 2017 through Friday, 7 July, 2017, being slightly longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Stock Exchange trading fees) will be held by the receiving

## SUMMARY

bank on behalf of the Company and the refund monies, if any, will returned to the applicants without interest on Thursday, 20 July, 2017. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Friday, 21 July, 2017.

### FOFFER STATISTICS

The Offer Price per Offer Share is expected to be not more than HK\$0.34 and is expected to be no less than HK\$0.26.

	<b>Based on the Offer Price of HK\$0.26 per Share</b>	<b>Based on the Offer Price of HK\$0.34 per Share</b>
Market capitalisation upon Listing ( <i>Note 1</i> )	HK\$208,000,000	HK\$272,000,000
Unaudited pro forma adjusted consolidated net tangible assets of our Group per Share ( <i>Note 2</i> )	RMB0.09	RMB0.11

*Notes:*

1. The calculations of the market capitalisation of our Shares is based on 800,000,000 Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue.
2. The unaudited pro forma adjusted consolidated net tangible assets of our Group per Share has been arrived with reference to certain estimation and adjustment. Please refer to Appendix II to this prospectus for further details.

### DIVIDEND

For FY2015 and FY2016, there were no dividends declared. In June 2017, we declared a special dividend of approximately RMB7.1 million to our sole Shareholder, which is expected to be settled by cash before the Listing.

Our Group currently does not have any specific dividend policy. Dividends may be paid out by way of cash or by other means that our Directors consider appropriate. The declaration of future dividends will be subject to the discretion of our Board and the approval of our Shareholders and will depend on our earnings, financial condition, cash requirement and availability and any other factors our Directors may deem relevant. For details, please refer to the section headed “Financial information — Dividend” in this prospectus.

### REASONS AND BENEFITS OF LISTING ON GEM

Our Directors believe that the Listing is beneficial to our Group in the long run due to the following reasons:

- To capture growth opportunities of the PRC garment accessories market
- Future access to capital raising platform
- A public listing status will enhance our corporate profile

## DEFINITIONS AND GLOSSARY

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

“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Application Form(s), individually or collectively, as the context may require
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company, adopted on 24 June 2017 as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	board of Directors
“business day”	a day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compounded annual growth rate
“Capitalisation Issue”	the issue of 599,999,900 Shares to be made upon capitalisation of the amount of HK\$5,999,999 standing to the credit of the share premium account of our Company as referred to in the paragraph headed “A. Further information about our Group — 6. Written resolutions of our sole Shareholder passed on 24 June 2017” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant(s)”	person(s) admitted to participate in CCASS as direct clearing participant(s) or general clearing participant(s)
“CCASS Custodian Participant(s)”	person(s) admitted to participate in CCASS as custodian participant(s)
“CCASS Investor Participant(s)”	person(s) admitted to participate in CCASS as investor participant(s) who may be individual(s) or joint individuals or corporation(s)
“CCASS Participant(s)”	CCASS Clearing Participant(s), CCASS Custodian Participant(s) or CCASS Investor Participant(s)
“close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules

## DEFINITIONS AND GLOSSARY

“Companies Law”	the Companies Law (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”	Reach New Holdings Limited (新達控股有限公司), an exempted company incorporated in the Cayman Islands under the Companies Law with limited liability on 22 January 2016
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules and, in the context of our Company, refers to Neo Concept and Mr. Lam or, where the context so requires, any one of them
“core connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Corporate Governance Code”	Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules
“Deed of Indemnity”	the deed of indemnity dated 29 June 2017 executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time) regarding certain indemnities as more particularly set out in the paragraph headed “E. Other information — 1. Tax and other indemnities” in Appendix IV to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 29 June 2017 executed by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time), regarding certain non-competition undertakings as more particularly set out in the section headed “Relationship with Controlling Shareholders — Non-competition undertaking” in this prospectus
“Director(s)”	director(s) of our Company

## DEFINITIONS AND GLOSSARY

“DY Apparel”	多悦服飾(惠州)有限公司 (Duo Yue Apparel (Huizhou) Company Limited*), previously known as 新天倫服飾(惠州)有限公司 (Sun Tin Lun Accessories (Huizhou) Company Limited*), a company incorporated in the PRC with limited liability on 23 March 1999, which was ultimately owned by Mr. Lam, Mrs. Lam, Ms. Fok and two independent third parties as to 55%, 20.5%, 4.5%, 10% and 10% prior to 26 May 2016. Mr. Lam, Mrs. Lam and Ms. Fok disposed of their interests in DY Apparel to Mr. Huang on 26 May 2016
“DY Weaving”	多悦織造(惠州)有限公司 (Duo Yue Weaving (Huizhou) Company Limited*), previously known as 新天倫織造(惠州)有限公司 (Sun Tin Lun Weaving (Huizhou) Company Limited*), a company incorporated in the PRC with limited liability on 23 March 1999, which was ultimately owned by Mr. Lam, Mrs. Lam, Ms. Fok, Mr Lam’s brothers and one independent third party as to 26%, 25%, 10%, 32% and 7% prior to 26 May 2016. Mr. Lam, Mrs. Lam and Ms. Fok disposed of their interests in DY Weaving to Mr. Huang on 26 May 2016
“ERP”	enterprise resources planning
“F&S” or “Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market research company
“F&S Report”	an industry report prepared by F&S and commissioned by our Company, an extract of which is set out in the section headed “Industry overview” in this prospectus
“FY2015”	the financial year ended 31 December 2015
“FY2016”	the financial year ended 31 December 2016
“FY2017”	the financial year ended 31 December 2017
“GDP”	gross domestic product
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
“GREEN Application Form(s)”	the application form(s) to be completed by <b>HK eIPO White Form</b> Service Provider designated by our Company

## DEFINITIONS AND GLOSSARY

“Group”, “we”, “our” or “us”	our Company and our subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our existing subsidiaries, our existing subsidiaries
“heat transfer printing”	a digital printing process in which material is applied to paper (or some other materials) by melting a coating of ribbon so that it stays glued to the material on which the print is applied
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“ <b>HK eIPO White Form</b> ”	the application of the Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“ <b>HK eIPO White Form Service Provider</b> ”	the <b>HK eIPO White Form</b> service provider designated by our Company, as specified on the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, the branch share registrar and transfer office of our Company in Hong Kong
“independent third party(ies)”	individual(s) or company(ies) who is/are not connected person(s) of our Company
“Joint Bookrunners”	Alliance Capital Partners Limited and Gransing Securities Co., Limited
“Joint Lead Managers”	Alliance Capital Partners Limited, Gransing Securities Co., Limited and Guotai Junan Securities (Hong Kong) Limited
“Latest Practicable Date”	21 June 2017, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information in this prospectus prior to its publication
“Listing”	the listing of our Shares on GEM
“Listing Date”	the date on which dealings in our Shares first commence on GEM

## DEFINITIONS AND GLOSSARY

“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company adopted on 24 June 2017, as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“Mr. Lam”	Mr. Lam Cheung Chuen (林長泉), our chairman, a non-executive Director and one of our Controlling Shareholders, the father of Mr. Gabi Lam, Mr. Jeffrey Lam and Ms. Man Yee Lam
“Mr. Gabi Lam”	Mr. Lam Kai Yuen (林啟源), our chief executive officer, an executive Director, the son of Mr. Lam, elder brother of Mr. Jeffrey Lam and younger brother of Ms. Man Yee Lam
“Mr. Huang”	Mr. Huang Yasan (黃亞三), the younger brother of Mrs. Lam and a connected person of our Company
“Mr. Huang Qingxi”	Mr. Huang Qingxi (黃清喜), the cousin of Mrs. Lam and a connected person of our Company
“Mr. Jeffrey Lam”	Mr. Lam Kai Cheong (林啟昌), an executive Director, the son of Mr. Lam and younger brother of Mr. Gabi Lam and Ms. Man Yee Lam
“Mrs. Lam”	Ms. Wong Ching Yuk (黃清玉), the spouse of Mr. Lam and the mother of Ms. Man Yee Lam, Mr. Gabi Lam and Mr. Jeffrey Lam, who ceased to be a director of STL Garment Accessories on 30 November 2016
“Ms. Fok”	Ms. Fok Wai Man (霍惠敏), the sales director of our Group and a member of our senior management
“Ms. Man Yee Lam”	Ms. Lam Man Yee (林敏儀), the daughter of Mr. Lam and elder sister of Mr. Gabi Lam and Mr. Jeffrey Lam
“Neo Concept”	Neo Concept Holdings Limited, a company incorporated in BVI with limited liability on 1 December 2015 and one of our Controlling Shareholders
“New Forest”	New Forest Company Limited, a company incorporated in BVI with limited liability on 1 December 2015 and a direct wholly-owned subsidiary of our Company
“Offer Price”	the offer price for each Offer Share (exclusive of any brokerage fee, SFC transaction levy and Stock Exchange trading fee), which is currently expected to be not more than HK\$0.34 per Offer Share and not less than HK\$0.26 per Offer Share, such price to be determined on or before the Price Determination Date



## DEFINITIONS AND GLOSSARY

“Offer Shares”	the Public Offer Shares and the Placing Shares
“Placing”	the conditional placing by the Placing Underwriters of the Placing Shares for cash at the Offer Price, as further described under the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Shares”	the 180,000,000 new Shares, being offered by our Company for subscription at the Offer Price under the Placing
“Placing Underwriters”	the group of underwriters led by the Joint Bookrunners, who are expected to enter into the Placing Underwriting Agreement
“Placing Underwriting Agreement”	the conditional underwriting agreement relating to the Placing and expected to be entered into by, among others, our Company, the Controlling Shareholders, the executive Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters, as further described in the section headed “Underwriting — The Placing” in this prospectus
“PRC”	the People’s Republic of China which, for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Legal Advisers”	Beijing Dentons Law Offices, LLP (Shenzhen), our PRC legal advisers
“Price Determination Agreement”	the agreement to be entered into between our Company and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) on or around the Price Determination Date to determine and record the Offer Price
“Price Determination Date”	the date, expected to be on or around Monday, 10 July 2017, or such other date as may be agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the other Underwriters), on which the Offer Price is determined by entering into the Price Determination Agreement
“Public Offer”	the offer by our Company of the Public Offer Shares for subscription to the public in Hong Kong at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) as described in the section headed “Structure and conditions of the Share Offer” in this prospectus and on and subject to the terms and conditions stated herein and in the Application Forms relating thereto

## DEFINITIONS AND GLOSSARY

“Public Offer Shares”	the 20,000,000 new Shares offered by our Company for subscription at the Offer Price pursuant to the Public Offer (as described in the section headed “Structure and conditions of the Share Offer” in this prospectus)
“Public Offer Underwriter(s)”	the underwriter(s) of the Public Offer named in the section headed “Underwriting — Underwriters — Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the conditional underwriting agreement relating to the Public Offer entered into, among others, our Company, the Controlling Shareholders, the executive Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters, as further described in section headed “Underwriting — Underwriting arrangements and expenses — The Public Offer” in this prospectus
“Reach New”	Reach New International Enterprises Limited (新達國際企業有限公司), a company incorporated in Hong Kong with limited liability on 18 July 2006
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the corporate reorganisation of our Group in the preparation for the Listing, details of which are set out in the section headed “History, development and Reorganisation — Reorganisation” in this prospectus
“RFID”	radio-frequency identification which uses electromagnetic fields to automatically identify and track tags attached to objects
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 in the share capital of our Company
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 24 June 2017, the principal terms of which are set out in the paragraph headed “D. Share Option Scheme” in Appendix IV to this prospectus

## DEFINITIONS AND GLOSSARY

“Shareholder(s)”	holder(s) of the Share(s)
“Smart Trend”	Smart Trend Enterprises Company Limited (駿達企業控股有限公司), a company incorporated in Hong Kong with limited liability on 15 April 2016 and an indirect wholly-owned subsidiary of our Company
“Sole Sponsor”	Alliance Capital Partners Limited, being the sole sponsor to the Listing and a corporation licensed under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined in the SFO
“STL Garment Accessories”	新天倫服裝配料(惠州)有限公司 (Sun Tin Lun Garment Accessories (Huizhou) Company Limited*), a company incorporated in PRC with limited liability on 31 December 2001 and an indirect wholly-owned subsidiary of our Company
“STL Apparel Accessories”	新天倫服裝輔料(惠州)有限公司 (STL Apparel Accessories (HZ) Co., Ltd.), a company incorporated in PRC with limited liability on 29 April 2007 and an indirect wholly-owned subsidiary of our Company
“Substantial Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules and, for the purpose of this prospectus, refers to our Shareholders disclosed in the section headed “Substantial and significant Shareholders — Substantial Shareholders” in this prospectus or, where the context so requires, any one of them
“Suzhou Duoyue Garment”	蘇州多悅服飾有限公司 (Suzhou Duoyue Garment Company Limited*), a company incorporated in the PRC with limited liability on 18 January 1993, which was ultimately owned by Mr. Lam and Mrs. Lam as to 51% in aggregate prior to 22 February 2016. Mr. Lam and Mrs. Lam disposed of their interests on 22 February 2016
“Suzhou Duoyue Printing”	蘇州工業園區多悅印刷製品有限公司 (Suzhou Industrial Area Duoyue Printing Company Limited*), a company incorporated in the PRC with limited liability on 19 February 2001, which was owned by Mr. Huang and Mr. Huang Qingxi, both being connected persons, as to 80% and 10%, respectively
“Sweater Garment (Huizhou)”	史威特服飾(惠州)有限公司 (Sweater Garment (Huizhou) Company Limited*), a company incorporated in the PRC with limited liability on 22 March 2005, which is owned by Sweater Garment (HK) Limited as to 100%. Sweater Garment (HK) Limited is beneficially owned by Mr. Lam, Mr. Huang and Mr. Huang Qingxi, all being connected persons of our Company, as to 60%, 20% and 20%, respectively

## DEFINITIONS AND GLOSSARY

“sq.ft.”	square feet
“sq.m.”	square metre
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the GEM Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	FY2015 and FY2016
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“U.S.”	the United States of America
“US\$” or “USD”	United States dollars, the lawful currency of the U.S.
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“ <b>WHITE</b> Application Form(s)”	the application form(s) for use by the public who require such Public Offer Shares to be issued in the applicant’s own name(s)
“ <b>YELLOW</b> Application Form(s)”	the application form(s) for use by the public who require such Public Offer Shares to be deposited directly in CCASS
“%”	per cent.

*Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown in totals in certain tables may not be the arithmetic aggregation of the figures preceding them.*

*Any name in this prospectus marked with an \* denotes an English translation of a Chinese name and is for identification purposes only. If there is any inconsistency between the Chinese name and the English translation, the Chinese version shall prevail.*

## FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements which are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies;
- our plans of operation and business prospects;
- our capital expenditure plans;
- our business operations and financial prospects, including development plans for our business and future cash flows;
- our future dividend and other dividend distribution plans;
- the regulatory environment of our industry in general;
- the future development in our industry;
- the global and domestic economy;
- the risks identified under the section headed “Risk factors” in this prospectus; and
- other factors beyond our control;

The words “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would” and similar expressions, as they relate to our Group, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect.

Subject to the requirements of the GEM Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

## RISK FACTORS

*You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Offer Shares. The business, financial condition or results of operation of our Group could be materially adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment.*

A number of risks and uncertainties are inherent in our operations. We have categorised these risks and uncertainties into those relating to: (1) our business, (2) the industry, (3) the PRC; and (4) the Share Offer. Investors should carefully consider the following factors in conjunction with the other information contained in this prospectus.

### **RISKS RELATING TO OUR BUSINESS**

**We have not entered into long-term contracts with our customers and it is difficult for us to forecast future order quantities.**

We have not entered into long-term contracts with our customers, which from time to time place purchase orders with us. Hence, the volume of purchase orders from our customers may vary from time to time. It is difficult for us to forecast future order quantities and our results of operations may fluctuate significantly in the future.

Our success depends on our customers' continual placing purchase orders with us and our ability to develop new customers. There is no assurance that our customers will continue to place purchase orders with us at the same level or on similar terms which they have historically done so, or at all, in the future, or we will be able to develop new customers. If our customers cease to place purchase orders with us or reduce the size of the purchase orders, or we are unable to develop new customers, our results of operations may be materially and adversely affected.

**We rely on demand from our customers and our revenue may be materially and adversely affected if demand from them decreases in the future.**

Our products were mainly sold to our customers, ultimately for the use as garment accessories such as labels for finished garments of the garment brand companies.

Our Directors anticipate that the demand for our products sourced by our customers for ultimate use as garment accessories for finished garments of our customers will continue to represent a majority of our revenue in the near future. In addition, our Group has not entered into long-term contracts with our customers. There may be adverse change in the political, economic or social conditions, foreign trade or monetary policies, or legal or regulatory requirements or taxation or tariff regime. Our customers may not place purchase orders with us at the same level or on similar terms which they have historically done so, or at all, in the future, such as the garment brand companies decreasing the demand for garment or apparel products due to economic downturn, popularity of garment brands owned by garment brand companies decreased or our products are no longer used by our customers for their products. Our business, financial condition and results of operations may be materially and adversely affected.

## RISK FACTORS

**We are exposed to credit risk of our customers. Any significant delay or defaults in payments by our customers may materially and adversely affect our financial position and results of operations.**

Our Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when our Group has significant exposure to individual customers.

During the Track Record Period, our Group's credit terms granted to customers is generally ranging from 30 to 90 days. Trade receivables (net of allowance for doubtful debts) of our Group amounted to approximately RMB13.9 million, and RMB17.8 million as at 31 December 2015 and 31 December 2016, respectively. The trade receivables (net of allowance for doubtful debts) turnover days were approximately 53.3 days and 61.7 days for FY2015 and FY2016, respectively. Up to the Latest Practicable Date, approximately 80.3% of such trade receivables had been settled. As at 31 December 2015 and 31 December 2016, approximately 39.9% and 37.7% of the total trade receivables were due from our Group's five largest customers, respectively. The financial position, profitability and cash flow of our Group depend on whether our customers are able to settle the outstanding balances owed to our Group in a timely manner. If there is any delay or defaults in payments by the customers, the financial position, profitability and cash flow of our Group may be materially and adversely affected.

**We depend on third party suppliers of raw materials, and we may not be able to secure a stable supply of raw materials with acceptable quality or on acceptable terms.**

The success of our business depends on our ability to obtain sufficient quantities of quality raw materials, such as paper, yarn and ribbon, on commercially acceptable terms and in a timely manner.

For FY2015 and FY2016, our purchase of materials and services (including subcontracting services) from our five largest suppliers, in aggregate, amounted to approximately 54.1% and 36.6% of our purchase of materials and services (including subcontracting costs) from our suppliers, respectively. We have not entered into any long-term supply contracts with our suppliers. If any of our suppliers fails to deliver raw materials to us in accordance with our production schedule or if we fail to identify alternative sources of quality raw materials when needed, at acceptable prices or with the required quantity and quality, or at all, the resulting loss of production volume may materially and adversely affect our ability to deliver products to our customers in a timely manner, or at all, and may materially and adversely affect our business, financial condition and results of operations.

## RISK FACTORS

**Increases in the prices of raw materials may materially and adversely affect our business, financial condition and results of operations.**

The key raw materials used in the production of our products are paper, yarn and ribbon. We set out below our approximate purchase amount of paper, yarn and ribbon and their respective approximate percentage to our total purchase amount of materials and services (including subcontracting costs) from our suppliers during the Track Record Period.

	<b>FY2015</b>		<b>FY2016</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Paper	6,827	20.2	9,117	25.4
Yarn	2,728	8.1	2,828	7.9
Ribbon	3,164	9.4	4,278	11.9

During the Track Record Period, the average purchase price of paper, yarn and ribbon is set out below:

	<b>FY2015</b>	<b>FY2016</b>
	<i>RMB</i>	<i>RMB</i>
Paper (per kg)	6.7	6.8
Yarn (per kg)	23.1	23.0
Ribbon (per roll)	31.9	32.7

For details of the price trend of paper, yarn and ribbon, please refer to the section headed “Business — Procurement” in this prospectus.

We have not adopted any hedging policy for forward purchase of paper, yarn and ribbon. The price of these raw materials is affected by a number of factors beyond our control, such as the global demand and supply of wood pulp, oil price, general economic condition, and environmental and conservation related regulations. If the purchase costs of our raw material substantially increase, we may incur additional costs to acquire sufficient quantity of these materials to meet our production needs. For sensitivity analysis on cost fluctuation of our raw materials, please refer to the section headed “Financial information — Change of material costs, direct labour costs and subcontracting costs — Change in material costs” in this prospectus.

**We may experience a shortage of labour or our labour costs may continue to increase.**

Our production remains highly labour-intensive. As at the Latest Practicable Date, we had a total of 328 employees (excluding our non-executive Director and executive Directors) out of which 230 were production related employees. For FY2015 and FY2016, direct labour costs amounted to approximately RMB16.4 million and RMB16.5 million, representing approximately 25.8% and 25.1%, respectively, of our cost of sales. The average monthly salary for our production related employees increased from approximately RMB5,890 for FY2015 to approximately RMB6,300 for FY2016, representing an increase of RMB410 or 7%. Moreover, labour costs have increased in the PRC in recent years. There is no assurance that we will not experience any shortage of labour for our production or that the costs of



## RISK FACTORS

labour in the PRC will not continue to increase in the future. Furthermore, if labour costs continue to increase in the PRC, our production costs will increase eventually and we may not be able to shift these extra costs to our customers due to competitive pricing pressures among our competitors.

If we fail to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to accommodate any increase in demand for our products. Our business, prospects, financial condition and results of operations would be materially and adversely affected.

**We engage subcontractors. Failure of such subcontractors to provide services to us or to meet our requirements may disrupt our business operation and materially and adversely affect our reputation, financial condition and results of operations.**

During the Track Record Period, we engaged subcontractors for certain production processes. For FY2015 and FY2016, the total amount paid to these subcontractors accounted for approximately 12.8% and 5.6%, respectively, of our cost of sales.

We have not entered into long-term production or processing contracts with these subcontractors. If any of our subcontractors fails to provide subcontracting services to us, or if we fail to identify alternative subcontractors in a timely manner, at acceptable prices or with the required production or processing quality, our business may be disrupted and our reputation, financial condition and results of operations may be materially and adversely affected.

In addition, we are not able to monitor or manage our subcontractors directly. If our subcontractors have not obtained all the licences, permits and approvals necessary for their operations or do not comply with the relevant laws and regulations applicable to them, thereby ceasing to operate their production or processing businesses, or failing to meet our production or delivery schedule or our required quality standards and specifications. Our reputation, financial condition and results of operations may be materially and adversely affected.

**Disruptions, damage or destruction to our production facilities, equipment and machinery or other leased properties may materially and adversely affect our business, financial condition and results of operations.**

The success of our business depends on, among other things, the continual operations of our factory located in Huizhou, the PRC, at which our only production facilities are located. The operations of our factory and other leased properties, may be affected by fire, flood or power failure at our leased properties or the other units of the same building at which we are located, breakdown of equipment and machinery at our factory, or scheduled maintenance of our equipment and machinery. The occurrence of any unanticipated or prolonged disruptions, damage or destruction to our factory, equipment and machinery or other leased properties may affect our ability to produce and deliver products to our customers in a timely manner, or at all, and, as a result, our business, financial condition and results of operations may be materially and adversely affected.

## RISK FACTORS

**Our financial results may be materially and adversely affected by the additional depreciation charges of new printing machines which we intend to buy and upgraded machines which we intend to enhance.**

We plan to buy two new four-colour offset printing machines and one digital printing machine in the first half of 2018 and the first half of 2019, to be financed by the net proceeds from the Share Offer. Currently, our estimated budget for the purchase is approximately HK\$17.0 million. For the enhancement of heat transfer printing production facilities and adoption of RFID technology, our estimated budget is approximately HK\$5.0 million after Listing. According to our accounting policy, the capital expenditures in connection with the new or upgraded machines will be depreciated over an estimated life of 10 years as soon as these machines has been put into operation. As we expect that these two new four-colour offset printing machines and one digital printing machine will be in operation in the first half of 2018 and the first half of 2019, additional depreciation charges of approximately HK\$1.7 million per annum on the relevant capital expenditures is expected to be incurred. In respect of the enhancement of heat transfer printing production facilities and adoption of RFID technology, additional depreciation charges for the one machine acquired in June 2017 and those to be acquired after Listing will be approximately HK\$0.5 million per annum.

**Production capacity of our newly acquired machines may not be fully utilised or utilised as we have planned.**

To meet the increasing demand including quality and production lead time of our apparel label products from garment manufacturers, we intend to buy two new four-colour offset printing machines and one digital printing machine in the first half of 2018 and the first half of 2019 which will be financed by the net proceeds from the Share Offer. We cannot assure that we will be able to utilise the additional production capacity fully after our newly acquired machines commence operation. Any failure to do so will result in our Group incurring expenses, and perhaps losses, without significant increase in its revenue.

**We are subject to the risk of system failure caused by unexpected network interruptions, security breaches, attack by hackers or computer virus, and business interruption due to natural or man-made disasters.**

Our business operation may be affected by any failure of our information technology infrastructure, such as our ERP system and our online system which computerises and integrates our key operation functions and our computer system through which we can monitor various processes in our business operations including product planning, manufacturing or service delivery, sales and marketing, inventory management, shipping and payment. However, there is no assurance that we will successfully maintain the satisfactory performance, reliability, security and availability of our information technology infrastructure. Such failure may be caused by unexpected network interruptions, security breaches, attacks by hackers or computer viruses.

Further, our operation may also be interrupted if any of our information technology infrastructure suspends operations due to the occurrence of events such as fires, floods, hardware and software failures, power failures, telecommunication failures, terrorist attacks or other natural or man-made disasters.

## RISK FACTORS

If any of the events mentioned above occurs, our business operation may be disrupted for an indefinite period of time, thereby damaging our business and reputation, and materially and adversely affecting our financial condition and results of operations.

**The success of our plan on enhancing our application of heat transfer printing and RFID technology to our products depend significantly on our ability to attract and retain competent personnel.**

We believe that our ability to attract and retain competent personnel with the experience and knowledge in the development of the application of heat transfer printing and RFID technology is significant to the success of our plan on enhancing our application of heat transfer printing and RFID technology to our products. If there is a shortage of such personnel in the labour market in the PRC, we may need to offer remuneration and other benefits above market rate in order to attract and retain such personnel in the future. If we are unable to attract and retain suitable personnel as mentioned above, our business plan on enhancing our application of heat transfer printing and RFID technology may not be successful or implemented at all.

**We may be subject to claims in connection with industrial accidents at our production facilities including personal injury claims and/or administrative penalty, and our insurance coverage may not adequately protect us against certain risk.**

Due to the nature of our operations, we are subject to the risks of our employees being exposed to industrial-related accidents at our premises. Please also refer to the section headed “Business — Environmental protection, health and work safety — Health and work safety” in this prospectus.

We cannot assure that industrial accidents, whether due to malfunctions of machinery or other reasons, will not occur in the future at our premises and that any compensation to be paid by us will be fully covered by our insurance policy, or at all. Under such circumstances, we may be subject to personal injury claims and/or administrative penalty, and if we are found to be liable and a substantial amount of damages was awarded by the court against us or substantial amount of penalty is imposed by the governmental authority on us and the insurance coverage maintained by us is not able to cover such payment, we may have to pay out of our own resources for any uninsured loss, damages and liabilities, and, our business, reputation, financial condition and results of operations may be materially and adversely affected.

**We may be subject to risks in relations to the intellectual property rights of the garment brand companies and we may be exposed to claims in respect of the infringement of third party intellectual property rights.**

The success of our business relies heavily upon our ability to protect the intellectual property rights of the garment brand companies (concerning mainly product design and specifications) that came into our possession for the production of our products. We cannot give assurance that our measures intended to protect the above-mentioned intellectual property rights are sufficient in preventing any possible infringement by third parties, or any possible leakage of confidential information relating to these intellectual property rights by our staff who have access to such information.

## RISK FACTORS

Therefore, there is no assurance that we will be able to sufficiently protect the intellectual property rights of the garment brand companies. If confidential information relating to the garment brand companies that come into our possession during the course of production of products is leaked out by our staff, our reputation and business relationship with our customers may be materially and adversely affected.

Further, under our business model, we cannot ensure that the designs provided by our customers will not infringe any third party's intellectual property rights, and in case of infringement, we may be subject to claims by such third parties. There is no indemnity provision in the contract entered into between our customers and us, which would entitle us to claim indemnity from our customers in the event of infringement. If our products are proved to have infringed any third party intellectual property rights, we may be required to compensate the owner of the intellectual property right for the damages suffered as a result of the infringement or to pay a fine for such infringement. We confirm that during the Track Record Period, we did not receive any claim related to any alleged intellectual property right infringement against us. Nevertheless, there is no assurance that we will not face such claims in future. In such event, our business may be materially and adversely affected. For details of our internal control measures, please refer to the section headed "Business — Risk management and internal control" in this prospectus.

**The properties in which we carry out our operations are all leased properties. We are exposed to the risks associated with the real estate rental market.**

All the properties occupied by us for our operations, namely, premises for factory and office are leased. For FY2015 and FY2016, our operating lease expenses amounted to approximately RMB3.7 million and RMB2.8 million, respectively.

The leases of premises for factory and office are mainly for a term of two to three years expiring in 2018 and 2019. The leases of our office in Hong Kong are not subject to an option to renew while the leases of our factory in the PRC are subject to our preferential rights to lease. There is no assurance that the rental expenses for our leased properties will not increase significantly, or we will be able to renew the tenancy agreements on commercially acceptable terms, or at all. In addition, there is no assurance that the tenancy agreements will not be terminated before their expiration. Termination of our leases may occur beyond our control, such as breaches of the tenancy agreements by the landlord(s). Moreover, as the leases of our factory in the PRC are subject to mortgage, if there is any default by the landlord(s), who is/are the mortgagor(s) of the said leased properties, the relevant mortgagee is entitled to enforce the terms of the mortgage against the landlord(s) by, among others, taking possession of the relevant leased properties and evicting our Group from the property without paying any compensation or incurring any liability to our Group, even if the landlord(s) agree to compensate us when the aforesaid events occur. If any of these events occurs, we may need to relocate to alternative properties. Relocations of any of our leased properties may cause disruptions to our operations and require significant expenditure. In addition, we may not be able to relocate to alternative properties with comparable lease terms at a comparable location. Any significant increase in rental expenses or our incurring relocation expenditure may materially and adversely affect our operating cash flows. As a result, our business, financial condition and results of operations may be materially and adversely affected.

## RISK FACTORS

### **Our success depends on our ability to attract, retain and motivate our senior management team and other staff.**

The talent, experience and leadership of our key executives and senior management team are critical to the success of our business. In particular, our executive Directors, Mr. Gabi Lam and Mr. Jeffrey Lam, have been pivotal to our success and we rely heavily on their continual service. In addition, other members of our senior management team also have substantial experience and expertise in our business and have made significant contributions to our growth and success. For details of the background and experience of our Directors and senior management, please refer to the section headed “Directors and senior management” in this prospectus. There is no assurance that these key executives and members of senior management will not voluntarily terminate their employment with us. Consequently, we may not be able to easily or quickly replace lost personnel and we may incur additional expenses to recruit, train and retain new hires. The unexpected loss of service of one or more of these individuals without a timely and suitable replacement may have a material adverse effect on our operations and prospects.

Moreover, if any of our executive officers or key employees joins a competitor or forms a competing company, we may lose consumers, suppliers, know-how and key professionals and staff members.

### **We may be subject to potential labour disputes and labour strikes**

We may be subject to the risk of potential labour disputes and labour strikes. As at the Latest Practicable Date, we have 326 and two full-time employees in the PRC and Hong Kong, respectively, excluding our non-executive Director and executive Directors. Whilst our employees did not go on a strike during the Track Record Period, we cannot guarantee that our employees will not request for wage increase at a level higher than our expectation and go on strikes. These potential disputes and labour strike could result in work stoppage or other events that could disrupt our operations, which could have a material adverse effect on our reputation, business, results of operation and financial conditions.

### **We may be subject to product liability claims if the use of our products has resulted in bodily injuries, property damage or other losses to our customers or the consumers of our customers’ end-products.**

We may face product liability claims from our customers or the consumers of our customers’ end-products on the grounds that the use of our products has resulted in their bodily injuries, property damage or other losses. The occurrence of such problems may result in recalls of our products and significant damage to our reputation. We cannot ensure that such incidents will not occur in the future. We may incur legal liabilities and have to compensate consumers or customers for any loss or damage they suffer in respect of valid product liability claims. We may also have to spend significant resources and time to defend ourselves if legal proceedings for product liability are instituted against us. In addition, adverse publicity from these types of concerns, whether valid or not, may discourage customers from purchasing our products. If customers lose confidence in our products, we may experience long-term declines in our sales, which may have a material adverse effect on our business, financial condition and results of operations.

## RISK FACTORS

**We may not have insurance coverage that is adequate to cover potential liabilities or losses.**

As at the Latest Practicable Date, we maintained insurance policies to protect us against bodily injury and property damage claims, property all risks insurance for our inventories, property, plant and equipment, employees' compensation insurance and medical insurance for our employees. We or our Directors or senior management may be exposed to claims for which no insurance policies have been maintained by us. In addition, despite our insurance coverage on our machines, inventories and motor vehicles, there may be circumstances for which we would not be covered adequately, or at all. If we incur substantial losses or liabilities and our insurance coverage is unavailable or inadequate to cover such losses or liabilities, our business, financial condition and results of operations may be materially and adversely affected.

**Our operations and our production facilities are in the PRC and our revenue was largely generated in the PRC. Our business is susceptible to any material deterioration in the economic, political and regulatory environment in the PRC.**

Substantially all our operations and our production facilities are in the PRC. All of our sales were generated in the PRC during the Track Record Period. We expect that the PRC will continue to be our place of operations. Accordingly, if it experiences any adverse economic, political or regulatory conditions in the PRC due to events beyond our control, such as local economic downturn, natural disasters, contagious disease outbreaks, terrorist attacks, or if the government adopts regulations that place restrictions or burdens on us or on our industry in general, our business, financial condition, results of operations and prospects may be materially and adversely affected. In addition, we do not have business presence in overseas jurisdictions, and may have difficulties in relocating our entire business operations to other geographic markets if there is any material deterioration in the economic, political and regulatory environment in the PRC.

**We may not be able to maintain our profit margins in the future.**

We achieved gross profit margin of approximately 33.4% and 37.7% respectively for FY2015 and FY2016. For the same period, our net profit margin was approximately 6.4% and 9.2%, respectively. Please refer to the section headed "Financial information — Period to period comparison of results of operation — Gross profit and gross profit margin" in this prospectus for the reasons of the fluctuations of our profit margins. As our profitability is dependent on, among other factors, the market competition and the market demands for our customers' products, there is no assurance that we will be able to maintain such gross profit margin or net profit margin in the future at a similar level as that in the Track Record Period.

**Our historical financial information may not necessarily reflect our performance in the future.**

For FY2015 and FY2016, our total revenue amounted to approximately RMB95.6 million and RMB105.2 million, respectively, with gross profit amounted to approximately RMB31.9 million and RMB39.6 million, respectively. However, such historical financial information is merely an analysis of our past performance, it does not reflect the performance of our business in the future, nor does it have any positive implication. Instead of our historical financial information, the future performance of our business depends on our capabilities to secure new business opportunities and keeping our costs at a minimum, and other factors which may be beyond our control.

## RISK FACTORS

**We may not be able to successfully implement our future expansion plans in time, or achieve the anticipated results.**

Details of our objective, strategies and future plans are set out under the sections headed “Future plans and use of proceeds” and the “Business — Business strategies and future plans” in this prospectus. The successful implementation of our business plans depends on a number of factors, such as the continual growth of the market for garment accessories manufacturing, customers’ demands, competitive landscape, and developments in the political, economic or social conditions in the PRC. All of these factors are beyond our control. Our future expansion plans are based on circumstances currently known to our Directors and certain assumptions. There is no assurance that we will be able to implement our business plans as scheduled nor that any such plans will be as successful as contemplated by us. Any failure or delay in achieving any or all of our business plans may have a material adverse effect on our business, financial condition, results of operations and prospects.

**We may need additional capital to fund the expansion plan and growth in the future, which we may not be able to obtain on acceptable terms, or at all.**

We may need additional capital to fund our capital expenditure associated with our expansion plan such as the proposed acquisition of two new four-colour offset printing machines and one digital printing machine, development of the application of RFID technology to our products, enhancement of our heat transfer printing production facilities, the expansion of our sales team and the upgrade of our information technology systems. There is no assurance that we will generate sufficient cash flow from our operating activities for our intended expansion plan. If we do not have sufficient operating cash flow for our intended expansion plan, we will need to obtain alternative financing. There is no assurance that we will be able to obtain adequate financing on acceptable terms, or at all. Our ability to obtain additional capital on acceptable terms will be subject to a variety of uncertainties, including:

- investor perceptions of and appetite for securities of companies engaged in the garment accessories industry;
- conditions in the capital and financial markets in which we may seek to raise funds;
- our future cash flows, financial condition and results of operations; and
- economic, political and other conditions in Hong Kong, the PRC and the rest of the world.

We may be required to scale down our planned capital expenditures, which may materially and adversely affect our ability to achieve economies of scale and implement our planned growth strategy. If we raise additional funding, we will incur interest and debt repayment obligations. The terms of any future debt facilities may also impose restrictive covenants that may restrict our business and operations or result in dilution of shareholding of our Shareholders in the case of equity financing. Our inability to raise additional funds in a timely manner and on terms favourable to us, or at all, may have a material adverse effect on our business, financial condition, results of operations and prospects.



## RISK FACTORS

### RISKS RELATING TO THE INDUSTRY

#### **We face intense competition in the garment accessories industry in the PRC.**

There is no specific market entry barrier for the garment accessories business which our Group is engaged in and on the whole it is also not subject to any major restrictions for market entry. Market players in the garment accessories face global competition, where our Group faces more direct competition in the PRC. According to the F&S Report, the garment accessories industry in the PRC was relatively fragmented and there are more than thousands of garment accessories manufacturers which focus on the business of printed products, woven labels and printed labels in the PRC. Competition may affect our Group's sales and the price of products, which will, in turn, affect the profitability of the business. As such, our Group is expected to face competition from existing and new players in the garment accessories industry in the PRC, which may have stronger financial resources and larger in size in the industry.

Competition from existing and new players may exert pressure on the price of our Group's products. The success of our Group depends on its ability to compete effectively against these competitors in terms of product quality, customer service, pricing, our ability to implement production schedules flexibly that meet customer needs, and technical development expertise. There is no assurance that our Group will continue to compete successfully in the future, and if our Group fails to do so, its business, financial condition and results of operations would be materially and adversely affected.

#### **If we fail to keep up with the pace of technological developments in the garment accessories industry, we may lose our competitiveness.**

Constant refinements to offset printing presses and related machinery and the introduction of new technologies are continually improving the quality, productivity, safety, speed, reliability and energy efficiency within the garment accessories manufacturing industry. The ability to print faster and more cost effectively offers garment accessories manufacturers a competitive edge. Technological improvements and increases in the level of automation, not only in the printing production process but also in the pre- and post-printing production stages, offer users cost savings on raw materials, time and labour, and reduce human error while enhancing product quality. If our Group is not able to upgrade our technologies to meet customers' demands, our business, competitiveness, financial condition and results of operations may be materially and adversely affected.

#### **We may lose our customers if our customers move their factories from the PRC.**

According to the F&S Report, our Group faces competition mainly from garment related and printing companies in the PRC and other South East Asian countries in which the garment manufacturers are located and they have the financial resources, expertise and sales networks comparable to those of our Group. There was a trend of PRC garment manufactures moving their factories from the PRC to South East Asian countries with lower labour costs such as Cambodia. As a result, these companies may also source their garment accessories locally in those countries. If our customers move their factories from the PRC to other places, we may lose our customers and our financial conditions and results of operations may be materially and adversely affected.



## RISK FACTORS

**We may be materially and adversely affected by the demand of environmental groups on excessive printing materials.**

Recently, environmental groups have demanded corporations to reduce the use of printing materials. If corporations respond proactively to such a request and reduce the use of printing and packaging materials, our business, financial condition, results of operations and prospects may be materially and adversely affected.

**Natural disasters, acts of war, political unrest and epidemics, which are beyond our control, may cause damage, loss or disruption to our business.**

Natural disasters, acts of war, political unrest and epidemics, which are beyond our control, may materially and adversely affect the economy, infrastructure and livelihood of the people of the PRC. Our business, financial condition, results of operations and prospects may be materially and adversely affected if such natural disasters occur in places where we operate or where our products are sold, whether directly or indirectly. Political unrest, acts of war and terrorist attacks may cause damage or disruption to us, our employees, our subcontractors, our garment manufacturing customers, garment brand companies using our products and our markets, any of which may materially and adversely affect our sales, cost of sales, overall results of operations and financial condition. The potential for war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot currently predict. In addition, certain Asian countries, including the PRC, have encountered epidemics, such as SARS or incidents of the avian flu. Past occurrences of epidemics have caused different degrees of damage to the economies in the PRC. A recurrence of an outbreak of SARS, avian flu or any other similar epidemic could cause a slowdown in the levels of economic activity generally, which, in turn, may materially and adversely affect our results of operations and the price of our Shares.

### **RISKS RELATING TO THE PRC**

**Our Group's business could be materially and adversely affected by changes in economic, political and social conditions in the PRC, as well as by changes in policies adopted by the PRC government.**

All of our Group's assets and operations are located in the PRC. As a result, our Group's business, results of operations, financial condition and prospects are subject to economic, political, legal and social conditions in the PRC.

Although the PRC's economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, the PRC government has retained significant control over economic growth by owning a significant portion of productive assets, allocating resources, controlling capital investment, reinvestment and foreign exchange, setting monetary policies and offering preferential treatment to particular industries or companies. In recent years, the PRC government has implemented economic reform measures emphasising the use of market forces to drive economic development.

## RISK FACTORS

These economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, some of these measures may benefit the overall PRC economy but have a negative effect on the industry in which our Group operates. All of these factors could materially and adversely affect its business, results of operations, financial condition and prospects.

### **Uncertainties in China's legal system could materially and adversely affect our Group.**

Our Group's operations are subject to PRC laws and regulations. China's legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, China has promulgated laws and regulations dealing with economic matters, such as the issuance and trading of securities, shareholder rights, foreign investment, corporate organisation and governance, commerce, taxation and trade.

However, many of these laws and regulations are relatively new and evolving, and are subject to different interpretations and may be inconsistently implemented and enforced. In addition, limited volumes of published court decisions may be cited for reference, but such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation, implementation and enforcement of these laws and regulations and a system of jurisprudence that gives only limited precedential value to prior court decisions can affect the legal remedies and protections available to you and adversely affect the value of your investment.

### **Our Company is a holding company and relies on dividend payments from our PRC subsidiary.**

We are a holding company and rely principally on dividends paid by our PRC subsidiary which carry out our operation to make dividend payments and other distributions in cash, pay expenses, service any debts incurred, and finance the needs of other subsidiaries. The ability of our PRC subsidiaries to pay dividends or other distributions to us may be subject to their earnings, financial positions, cash requirements and availability, applicable laws, rules and regulations, and restrictions on making payments to our Company contained in financing or other agreements. If our PRC subsidiaries incur debt in their own names in the future, the instruments or agreements governing the debt may restrict them from declaring dividends or making other distributions to us, which could in turn restrict our ability to fund our business operations and to pay dividends to our Shareholders. Our Company's future declaration of dividends may not reflect our historical declarations of dividends and will be at the absolute discretion of our Board.

Furthermore, applicable PRC laws, regulations and rules permit payment of dividends by our PRC subsidiary only out of its accumulated retained earnings, if any, determined in accordance with PRC accounting standards. Our PRC subsidiaries are required to set aside a certain percentage of their after tax profits based on PRC accounting standards to their statutory reserves in accordance with the requirements of relevant PRC laws and provisions in their articles of associations. As a result, our PRC subsidiaries may be restricted in their abilities to transfer a portion of their net income to us whether in the form of dividends, loans or advances. These restrictions and requirements could reduce the amount of distributions that we receive from our subsidiaries, which would restrict our ability to fund our operations, generate income, pay dividends and service our indebtedness. Moreover, these limitations on the flow of funds between and amongst us and our PRC subsidiaries could restrict our ability to respond to changing market conditions or appropriately allocate funds to our PRC subsidiary in a timely manner, or at all.

## RISK FACTORS

### **RISKS RELATING TO THE SHARE OFFER**

**There has been no prior public market for our Shares and their liquidity and market price may be volatile.**

Prior to the Share Offer, there was no public market for our Shares. A listing of, and the permission to deal in, the Shares on the Stock Exchange, do not guarantee that an active trading market for our Shares will develop or, if it does develop, will be sustained following the Share Offer. Furthermore, the price and trading volume of our Shares may be volatile. There are many factors which may affect the volume and price at which our Shares will trade.

**Purchasers of Shares will experience dilution if we issue additional Shares in the future.**

We may issue additional Shares or equity-related securities in the future to raise additional funds, finance acquisitions or for other purposes. If we issue additional Shares or equity-related securities in the future, the percentage ownership of our existing Shareholders may be diluted. In addition, such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

**There may be a dilutive effect on the earnings per Share associated with the Share Option Scheme and an impact on future earnings.**

We conditionally adopted the Share Option Scheme under which options to acquire Shares may be granted after completion of the Share Offer. Details of the Share Option Scheme are set out in the paragraph headed “D. Share Option Scheme” in Appendix IV to this prospectus.

The issue of Shares upon the exercise of any options which may be granted under the Share Option Scheme will result in an increase in the number of Shares in issue and may result in the dilution of the percentage of ownership of our Shareholders, the earnings per Share and net asset value per Share.

**Our Controlling Shareholders have substantial influence over us and our Controlling Shareholders’ interests may not be aligned with the interests of our other Shareholders.**

Immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme), our Company will be owned as to 75% by Neo Concept, which is wholly owned by Mr. Lam. Neo Concept and Mr. Lam are regarded as our Controlling Shareholders under the GEM Listing Rules. As such, our Controlling Shareholders will have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for their Shares in a sale of our Company or may reduce the market price of our Shares. These actions may be taken even if they are opposed by our other Shareholders, including those who obtained Shares in the Share Offer. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders.

## RISK FACTORS

**You may not have the same protection of your Shareholder rights under Cayman law comparing to what you would have under Hong Kong law.**

Our corporate affairs are governed by the Memorandum and Articles, the Companies Law, and the common law of the Cayman Islands. The rights of Shareholders to take action against the Directors, the rights of minority Shareholders to institute actions and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law. Decisions of the superior courts of England constitute persuasive authority in the Cayman Islands courts. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ from those under statutes and judicial precedent in existence in Hong Kong and other jurisdictions. Such differences may mean that the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. Please refer to the paragraph headed “Cayman Islands Company Law” in Appendix III to this prospectus for further information.

**There can be no assurance if and when we will pay dividends in the future.**

Distribution of dividends shall be formulated by our Board at their discretion and, for final dividends, will be subject to Shareholders’ approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, financial condition, cash flows, working capital, operating and capital expenditure requirements, distributable profits as determined under HKFRSs, our Articles of Association, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, and any other factors determined by our Board from time to time to be relevant to the declaration or suspension of dividend payments. No dividend were declared for FY2015 and FY2016. In June 2017, we declared a special dividend of approximately RMB7.1 million to our Shareholders, which is expected to be settled before the Listing. There can be no assurance whether, when and in what form we will pay dividends in the future. Therefore, our historical dividend distributions are not indicative of our future dividend distribution policy. Please refer to the section headed “Financial information — Dividend” in this prospectus for further details.

**The PRC government control on currency conversion and changes in the exchange rate between RMB and other currencies could negatively affect our ability to pay dividends.**

The PRC government control on currency conversion and changes in the exchange rate between RMB and other currencies could negatively affect our ability to pay dividends. RMB is not currently a freely convertible currency and our Group needs to convert RMB into foreign currency for payment of dividends, if any, to our Shareholders. Our PRC subsidiaries are subject to the PRC rules and regulations on currency conversion. In the PRC, The State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) (“SAFE”) regulates the conversion of RMB into foreign currencies. Foreign invested enterprises (“FIEs”) are required to apply to SAFE or its local branches for Foreign Exchange Registration Certificates.

Under relevant PRC foreign exchange laws and regulations, payment of current account items, including profit distributions and interest payment, is permitted to be made in foreign currencies without prior government approval but is subject to certain procedural requirements. Strict foreign exchange

## RISK FACTORS

control continues to apply to capital account transactions, which must be approved by and/or registered with SAFE. We cannot assure you that the PRC regulatory authorities will not impose further restrictions on foreign exchange transactions for current-account items, including payment of dividends.

Furthermore, in 2005, China revalued the exchange rate of the RMB to USD and abolished the RMB to peg as applied in the past. We cannot assure you that in the future China will not revalue RMB or permit its substantial appreciation and/or depreciation. Any change in the value of RMB may adversely affect the growth of the PRC economy and competitiveness of various industries in the PRC, including the industry in which our Group operates, which could in turn affect the financial condition and operations of our Group.

**Sale, or perceived sale, of substantial amounts of our Shares in the public market may materially and adversely affect the prevailing market price of our Shares.**

The Shares held by our Controlling Shareholders are subject to certain lock-up periods after the date on which trading in our Shares commences on the Stock Exchange, details of which are set out in the section headed “Underwriting” in this prospectus. Our existing Shareholders (including our Controlling Shareholders) may dispose of Shares that they may own now or in the future. Sales of substantial amounts of our Shares in the public market, or the perception that these sales may occur, may materially and adversely affect the prevailing market price of our Shares.

**There can be no assurance on the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other Independent Third Party sources, including the industry consultant report, contained in this prospectus.**

Certain facts, forecasts and other statistics relating to the economy and the garment accessories manufacturing industry contained in this prospectus have been derived from various government publications, market data providers and other independent third-party sources, including F&S, and generally are believed to be reliable. However, we cannot guarantee the accuracy and completeness of such information. These facts, forecasts and other statistics have not been independently verified by us, the Sole Sponsor, any of the Underwriters, their or our respective directors and advisers or any other parties involved in the Share Offer and none of them makes any representation as to the accuracy or completeness of such information. Furthermore, such facts, forecasts and other statistics may not be prepared on a comparable basis or may not be consistent with other information compiled within or outside Hong Kong or available from other sources. For these reasons, you should not place undue reliance on such information as a basis for making your investment in our Shares.

**Investors should read the entire prospectus carefully and should not consider any particular statements in published media reports without carefully considering the risks and other information contained in this prospectus.**

Prior to the publication of this prospectus, there may have been press articles and media coverage regarding us and the Share Offer which might include certain financial information, financial projections, and other information about us which do not appear in this prospectus. Such information might not be sourced from or authorised by us, and as such, we do not accept any responsibility for the accuracy or completeness of such information. We cannot guarantee and make no representation as to

## RISK FACTORS

the appropriateness, accuracy, completeness or reliability of such information. Potential investors are therefore cautioned to read this prospectus in its entirety and to make their investment decisions based solely on the information contained in this prospectus.

### **Forward-looking information may be inaccurate.**

This prospectus contains certain statements that are “forward-looking” and uses forward-looking terminology such as “aim”, “estimate”, “anticipate”, “believe”, “continue”, “could”, “expect”, “intend”, “may”, “might”, “plan”, “consider”, “potential”, “propose”, “seek”, “ought to”, “should”, “will” and “would” or similar expressions, or their negatives. Those statements include, among other things, the discussion of our growth strategy and the expectations of our future operation, liquidity and capital resources.

Purchasers of our Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions may prove inaccurate. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set out in this section. We do not intend to update these forward-looking statements in addition to our continuing disclosure obligations pursuant to the GEM Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information. Please refer to the section headed “Forward-looking statements” in this prospectus.

## WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

In preparation for the Listing, we have sought the following waiver from strict compliance with the relevant provisions of the GEM Listing Rules.

### **Continuing connected transactions**

We have entered into transactions which would constitute continuing connected transactions under the GEM Listing Rules subject to reporting, annual review and announcement requirements but exempt from independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules after the Listing. We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver pursuant to Rule 20.103 of the GEM Listing Rules from strict compliance with the announcement requirement under rule 20.33 of the GEM Listing Rules for such continuing connected transactions. Further information of such continuing connected transactions and the conditions of the waiver is set forth in the section headed "Connected transactions" in this prospectus.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

### **INFORMATION ABOUT THE SHARE OFFER**

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Share Offer to give any information, or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, and any of their respective directors or any other person involved in the Share Offer.

The following information is provided for guidance only. Prospective applicants for the Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

### **THE SHARES ARE FULLY UNDERWRITTEN**

This prospectus is published in connection with the Share Offer which comprises the offer of 200,000,000 Shares by our Company for subscription at the Offer Price.

The Share Offer is sponsored by the Sole Sponsor and managed by the Joint Bookrunners. For details of the structure and conditions of the Share Offer, please refer to the section headed "Structure and conditions of the Share Offer" in this prospectus.

The Offer Shares are fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreements. For further details of the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

### **RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES**

No action has been taken to permit any offer of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstance in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offer of the Offer Shares in other jurisdictions are subject to restrictions and may not



## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

be made except as permitted under the securities laws, rules and regulations of such jurisdiction pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

The Offer Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. As far as the Share Offer is concerned, no person is authorised in connection with the Share Offer to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein shall not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our/their respective directors or any other parties involved in the Share Offer.

Each person acquiring the Offer Shares will be required to, or be deemed by his/her/its acquisition of the Offer Shares, to confirm that he/she/it is aware of the restrictions on the offer and sale of the Offer Shares described in this prospectus and that he/she/it is not acquiring, and has not been offered any Offer Share, in circumstances which contravene any such restrictions.

Prospective investors should consult their professional advisers and take advice, as appropriate, to inform themselves of, and to observe, all applicable laws, rules and regulations of any relevant jurisdiction. Prospective investors should inform themselves as to the relevant regulatory requirements of investing in the Offer Shares and any applicable exchange control regulations in the jurisdictions of their respective citizenship, residence or domicile.

### **STRUCTURE AND CONDITIONS OF THE SHARE OFFER**

For further details of the Share Offer, please refer to the section headed “Structure and conditions of the Share Offer” in this prospectus.

### **APPLICATION FOR LISTING ON GEM**

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be allotted and issued as mentioned in this prospectus.

None of our Company or any of our subsidiaries is presently listed on any stock exchange on which any part of the equity or debt securities of our Company or any of our subsidiaries is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought.

### **DEALING ARRANGEMENTS**

Dealings in the Shares on GEM are expected to commence on or about Friday, 21 July 2017. Shares will be traded in board lots of 10,000 Shares each.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

### **THE SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the approval of the listing of, and permission to deal in, the Shares in issue and to be allotted and issued on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day (as defined in the GEM Listing Rules) after any trading day. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Prospective investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Prospective investors of the Offer Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in, the Shares or exercising their rights thereunder. It is emphasised that none of our Company, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the other Underwriters, our/their respective directors, agents or advisers or any other persons involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, holding, purchase, disposal of or dealing in, the Shares or exercising their rights thereunder.

### **REGISTER OF MEMBERS AND STAMP DUTY**

All Shares to be allotted, issued and transferred pursuant to the Share Offer will be registered on the branch register of members of our Company in Hong Kong maintained by the Hong Kong Branch Share Registrar. The principal register of members of our Company in the Cayman Islands is maintained by Estera Trust (Cayman) Limited. Only Shares registered on the branch register of members of our Company in Hong Kong may be traded on GEM.

Dealings in the Shares registered on the branch register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty. The current rate of stamp duty in Hong Kong is 0.2% of the consideration or, if higher, the market value of the Shares being sold or transferred.

### **EXCHANGE RATE CONVERSION**

Unless otherwise specified and for illustration purpose only, conversion of USD into HKD and RMB into HKD in this prospectus are based on the exchange rate set out below:

US\$1.00 = HK\$7.80

RMB1.00 = HK\$1.12

Such conversion shall not be construed as representations that amount of such currency was or may have been converted into HKD and vice versa at such rates or any other exchange rates.

## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this English prospectus shall prevail.

### **ROUNDING**

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as total in certain tables may not be an arithmetic aggregation of the figures preceding them.

## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

### DIRECTORS

Name	Residential address	Nationality
<i>Chairman and non-executive Director</i>		
Mr. Lam Cheung Chuen (林長泉先生)	Flat A, 8th Floor, Block 15 The Cairnhill 108 Route Twisk Tsuen Wan, New Territories Hong Kong	Chinese
<i>Executive Directors</i>		
Mr. Lam Kai Yuen (林啟源先生)	Flat A, 8th Floor, Block 17 The Cairnhill 108 Route Twisk Tsuen Wan, New Territories Hong Kong	Chinese
Mr. Lam Kai Cheong (林啟昌先生)	Flat D, 8th Floor, Block 15 The Cairnhill 108 Route Twisk Tsuen Wan, New Territories Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Mr. Moy Yee Wo, Matthew (梅以和先生)	Flat G, 25th Floor, Block 3 Bellagio 33 Castle Peak Road New Territories Hong Kong	Chinese
Mrs. So Chan Wai Hang (蘇陳偉香女士), also known as Ms. Chan Wai Hang (陳偉香女士) (BBS)	102 Ma Ling Path Kau To Shan Shatin, New Territories Hong Kong	Chinese
Mr. Ho Yuk Hay (何旭晞先生)	Flat E, 11th Floor, Tower 6 Park Central 9 Tong Tak Street Tseung Kwan O, New Territories Hong Kong	Chinese

For further information on the backgrounds of our Directors, please refer to the section headed “Directors and senior management” in this prospectus.

## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

### PARTIES INVOLVED IN THE SHARE OFFER

#### Sole Sponsor

#### **Alliance Capital Partners Limited**

*A licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO*

Room 1502–1503A

Wing On House

71 Des Voeux Road Central

Central

Hong Kong

#### Joint Bookrunners

#### **Alliance Capital Partners Limited**

Room 1502–1503A

Wing On House

71 Des Voeux Road Central

Central

Hong Kong

#### **Gransing Securities Co., Limited**

17/F, Hing Yip Commercial Centre

272–284 Des Voeux Road Central

Hong Kong

#### Joint Lead Managers

#### **Alliance Capital Partners Limited**

Room 1502–1503A

Wing On House

71 Des Voeux Road Central

Central

Hong Kong

#### **Gransing Securities Co., Limited**

17/F, Hing Yip Commercial Centre

272–284 Des Voeux Road Central

Hong Kong

#### **Guotai Junan Securities (Hong Kong) Limited**

27/F, Low Block, Grand Millennium Plaza

181 Queen's Road Central

Hong Kong

## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

### Legal advisers to our Company

*As to Hong Kong law*

**ONC Lawyers**

*Solicitors, Hong Kong*

19th Floor, Three Exchange Square

8 Connaught Place

Central

Hong Kong

*As to PRC law*

**Beijing Dentons Law Offices, LLP (Shenzhen)**

*Registered law firm in the PRC*

3rd and 4th Floor, Block A

Shenzhen International Innovation Center

No. 1006, Shennan Boulevard

Futian District

Shenzhen

Guangdong Province

PRC

*As to Cayman Islands law*

**Appleby**

*Cayman Islands attorneys-at-law*

2206-19 Jardine House

1 Connaught Place

Central

Hong Kong

### Legal advisers to the Sole Sponsor and the Underwriters

*As to Hong Kong law*

**Benny Pang & Co**

*Solicitors, Hong Kong*

27th Floor, 100QRC

100 Queen's Road Central

Central

Hong Kong

*As to PRC law*

**Shu Jin Law Firm**

*Solicitors, China*

12th Floor, Taiping Finance Building

6001 Yitian Road

Futian District

Shenzhen, PRC

518017

## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

**Reporting accountants  
and auditors**

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
35th Floor, One Pacific Place  
88 Queensway  
Admiralty  
Hong Kong

**Compliance adviser**

**Alliance Capital Partners Limited**  
*A licensed corporation under the SFO to carry on type 1  
(dealing in securities) and type 6 (advising on corporate  
finance) regulated activities as defined under the SFO*  
Room 1502–1503A  
Wing On House  
71 Des Voeux Road Central  
Central  
Hong Kong

**Industry Consultant**

**Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.**  
Room 1018, Tower B  
No. 500 Yunjin Road  
Xuhui District  
Shanghai, 200232, PRC

**Receiving bank**

**Standard Chartered Bank (Hong Kong) Limited**  
15th Floor, Standard Chartered Tower  
388 Kwun Tong Road  
Kwun Tong  
Hong Kong

## CORPORATE INFORMATION

<b>Registered office</b>	PO Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
<b>Headquarters and principal place of business in the PRC</b>	Sun Tin Lun Industrial Centre No. 6 Taihao Road Sandong Digital Industrial Park Sandong Town, Huizhou City Guangdong Province PRC
<b>Principal place of business in Hong Kong registered under Part 16 of the Companies Ordinance</b>	Room 820, 8th Floor Fortune Commercial Building 362 Sha Tsui Road Tsuen Wan, New Territories Hong Kong
<b>Company's website</b>	<b><u><a href="http://www.sthl.com.hk">www.sthl.com.hk</a></u></b> <i>(information contained in such website does not form part of this prospectus)</i>
<b>Company secretary</b>	Mr. Chan Fei Fei ( <i>HKICPA</i> ) Flat E, 9th Floor, Block 5 Grand Palisades 8 Shan Yin Road Tai Po, New Territories Hong Kong
<b>Authorised representatives</b> <i>(for the purpose of the GEM Listing Rules)</i>	Mr. Lam Kai Yuen Flat A, 8th Floor, Block 17 The Cairnhill 108 Route Twisk Tsuen Wan, New Territories Hong Kong  Mr. Chan Fei Fei ( <i>HKICPA</i> ) Flat E, 9th Floor, Block 5 Grand Palisades 8 Shan Yin Road Tai Po, New Territories Hong Kong
<b>Compliance officer</b>	Mr. Lam Kai Yuen



## CORPORATE INFORMATION

<b>Audit committee</b>	Mr. Ho Yuk Hay ( <i>chairman</i> ) Mr. Moy Yee Wo, Matthew Mrs. So Chan Wai Hang ( <i>BBS</i> )
<b>Remuneration committee</b>	Mrs. So Chan Wai Hang ( <i>BBS</i> ) ( <i>chairlady</i> ) Mr. Moy Yee Wo, Matthew Mr. Ho Yuk Hay
<b>Nomination committee</b>	Mr. Moy Yee Wo, Matthew ( <i>chairman</i> ) Mrs. So Chan Wai Hang ( <i>BBS</i> ) Mr. Ho Yuk Hay
<b>Principal share registrar and transfer office in the Cayman Islands</b>	<b>Estera Trust (Cayman) Limited</b> PO Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
<b>Hong Kong branch share registrar and transfer office</b>	<b>Tricor Investor Services Limited</b> Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal banks</b>	<b>Hang Seng Bank Limited</b> 83 Des Voeux Road Central Hong Kong  <b>Bank of China, Huizhou Industrial Park Branch</b> No. 1 Complex Building Huizhou Industrial Park Huizhou City, Guangdong Province the PRC  <b>Industrial and Commercial Bank of China, Huizhou Xia Jiao Branch</b> No. 13, Xia Jiao Zhong Lu Huicheng Qu Huizhou City, Guangdong Province the PRC

## INDUSTRY OVERVIEW

*The information which appears under this section has been prepared by Frost & Sullivan and reflects estimates of market conditions based publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Frost & Sullivan should not be considered as the opinion of Frost & Sullivan as to the value of any security or the advisability of investing in our Company. Our Directors believe that the sources of information contained in this section of this prospectus are appropriate sources for such information and have taken reasonable care in reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted which would render such information false or misleading. The information prepared by Frost & Sullivan and set out in this section of this prospectus has not been independently verified by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our/their respective directors, officers, employees, agents or representatives, or any other person or party involved in the Share Offer and neither of them gives any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision.*

### REPORT COMMISSIONED FROM FROST & SULLIVAN AND SOURCE OF INFORMATION

In connection with the Share Offer, we have commissioned F&S, an independent third party, to conduct a study of the garment accessories market in the PRC, the F&S Report. F&S is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. F&S services include technology research, independent market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. F&S has been covering the PRC markets since the 1990's. F&S has four offices in the PRC and direct access to the most knowledgeable experts and market participants in commercial factoring market in the PRC and its industry consultants have an average of more than five years of experience.

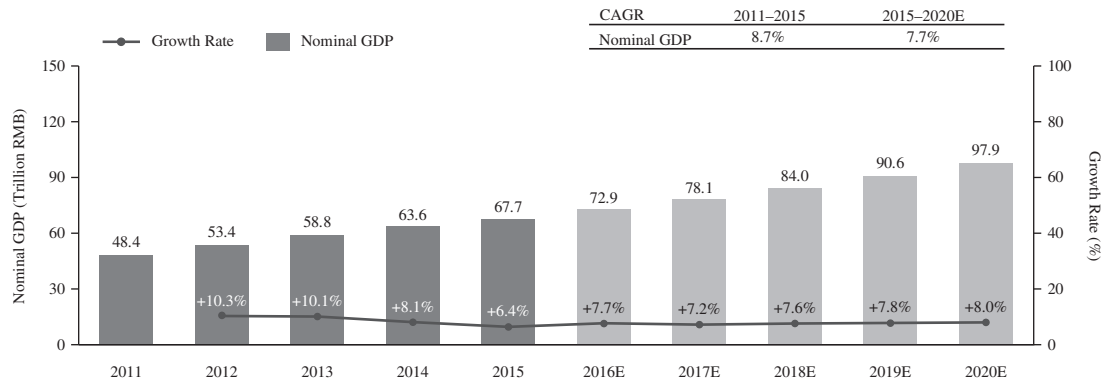
The methodology used by F&S in gathering the relevant market data in compiling the F&S Report included secondary research and primary interviews. Secondary research involves information integration of data and publication from publicly available resources, including official data and announcements from government authorities of the PRC and market research on industry and enterprise player information issued by our major competitors. Primary interviews are conducted with relevant institutions to obtain objective and factual data and prospective predictions. F&S considers such source of information as reliable because (i) it is general market practice to adopt official data and announcements from various government authorities of the PRC; and (ii) the information obtained from interviews is for reference only and the findings in the F&S Report are not based on the results of these interviews. In compiling and preparing the F&S Report, F&S has adopted the following assumptions: (i) the economies of the PRC is assumed to maintain relatively steady growth across the forecast period; (ii) the social, economic and political environments of the PRC is likely to remain stable in the forecast period, which ensure the stable and healthy development of the PRC garment accessories market; and (iii) there is no war or large scale disaster during the forecast period. The following parameter are considered in the market sizing and forecast model in the F&S Report: (i) GDP value and GDP growth rate from 2011 to 2020; (ii) retail revenue of garment market in the PRC from 2011 to 2020; sales revenue of the PRC garment accessories market from 2011 to 2020, sales revenue of top five players of the PRC garment accessories market in 2016. F&S charged us a total fee of RMB350,000 for the preparation and use of the F&S Report.

## INDUSTRY OVERVIEW

Our Directors confirm that, after making reasonable investigation, there has been no material adverse change in the market information since the date of the F&S Report and up to the Latest Practicable Date, which may qualify, contradict or have an impact in any material respect on the information in this section of this prospectus.

### ECONOMIC GROWTH IN THE PRC

#### Nominal GDP (The PRC), 2011–2020E



Source: F&S Report

Over the past years, the PRC economy has maintained a solid growth pace even under the shock of the world financial crisis. During the time of world financial crisis, the PRC government has taken effective stimulus policies to prevent the economy from huge decline. According to National Bureau of Statistics of China, PRC economy grew at a CAGR of 8.7% from 2011 to 2015.

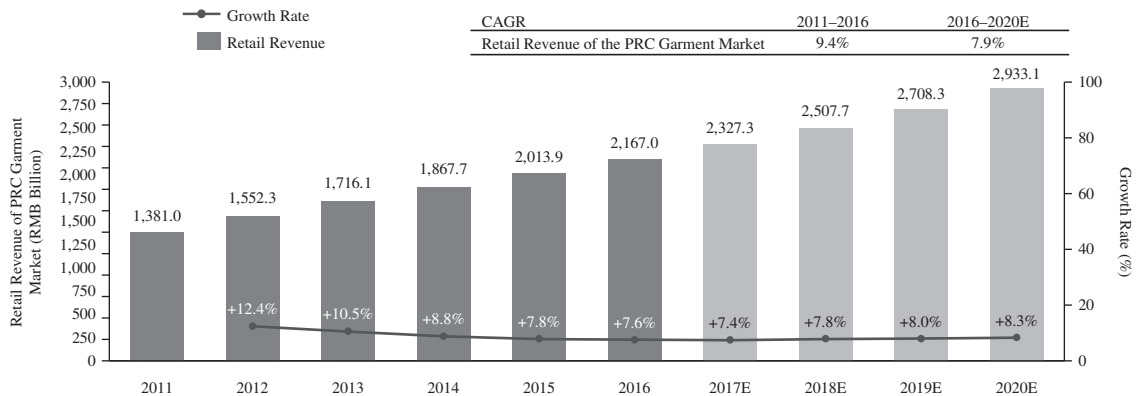
Going forward, the PRC authorities are likely to maintain the consistency and stability of macroeconomic policies so as to maintain macroeconomic stability. In the meantime, structural adjustment of the economy is predicted to be pushed forward strongly by the PRC authorities to improve the quality and efficiency of economic development. The PRC economy is likely to transfer from an investment-driven model to a consumption-driven model with the share of final consumption in GDP picking up. Under this trend, the PRC economy is likely to maintain a sound and healthy development. According to International Monetary Fund, the PRC economy is forecasted to keep growing at a CAGR of 7.7% from 2015 to 2020.

# INDUSTRY OVERVIEW

## GARMENT MARKET IN THE PRC

### Size of Garment Market in the PRC

*Retail Revenue of Garment Market (The PRC), 2011–2020E*



Source: F&S Report

In brief, the PRC garment market showed upward trend in the period of 2011 to 2016. The revenue of this market increased from RMB1,381.0 billion in 2011 to RMB2,167.0 billion in 2016, representing a CAGR of 9.4%. In the following five years, driven by the increase of disposable income, improvement of living standard and multiple sales channels, the PRC garment market is estimated to grow at a CAGR of 7.9%, reaching RMB2,933.1 billion in 2020.

### Main Drivers of Garment Market in the PRC

*The Steady Growth of Disposable Income in the PRC*

The per capita annual disposable income of urban households in the PRC increased from RMB21,810 in 2011 to RMB33,351 in 2016, realising a CAGR of 8.9%. The per capita net income of rural residents in the PRC increased from RMB6,977 in 2011 to RMB11,517 in 2016, realising a CAGR of 10.5%. The annual income of urban households and rural residents is expected to enjoy a steady growth in the next few years, with a CAGR of 6.0% and 6.8% respectively from 2016 to 2020. The growth in annual income level of people in the PRC will directly stimulate the general consumption, in particular, those related to daily life such as garments and food. With the stronger willingness to make consumption, the PRC garment market is likely to be driven up by strong spending.

*Rising Brand Awareness of Consumers*

Due to rising purchasing power and living standard, Chinese consumers prefer branded garment over non-branded ones as they represent finer quality, aesthetic design, personal style and sense of decency. Well branded garment companies are hence expected to experience a highly positive growth over the forecast period.

## INDUSTRY OVERVIEW

### *Pursuit of Fashion and Personality*

In the recent years, the trend of fashionable and casual design in the PRC garment market generates customer demand for garments with various styles to fit into different social situations. Chinese consumers, along with increasing fashion awareness, intend to purchase multiple sets of clothes. And local garment brands and manufacturers are also creating new series and collections with more specific market positioning to directly stimulate the consumer purchasing.

### **Future Opportunity of Garment Market in the PRC**

#### *Further Development in Online Sales Channel*

In the recent years, due to the rapid development of the PRC internet industry and logistics industry, the online sales channels witnessed a significant growth. Through online sales channel, people can have a more convenient shopping experience and process. Moreover, the online sales channel can reduce the operation cost for garment brands. However, the traditional sales channels like department stores and shopping malls are still the major sales channels in the PRC garment market. In the future, the online sales channel is likely to enjoy a fast growth.

#### *Casual, stylish, and chic are becoming the theme in design*

Change of workplace dress code and diversifying daily life situations promote the prevail of casual style in garment products. The need to express personal taste and identification further enhance the appeal for stylish design in the market. And the promotion of fashion among Chinese consumers is forcing garment brand companies to integrate the latest fashion trend in their design.

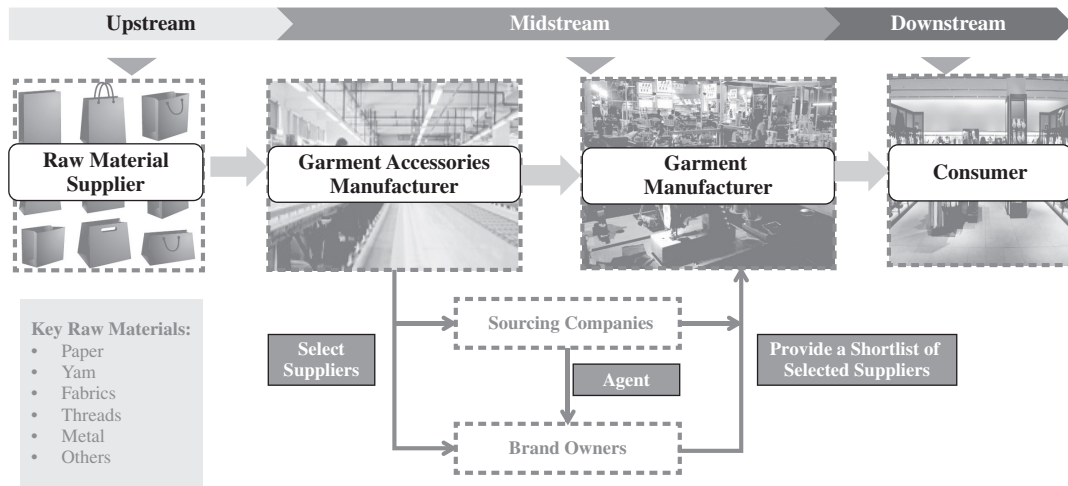
## **GARMENT ACCESSORIES MARKET IN THE PRC**

### **Definition of Garment Accessories**

Garment accessories comprise printed products, woven label, printed labels, and other garment accessories such as tapes, hanging tablets, string locks, leather badges, buttons and metal products. For the purpose of the F&S Report, the participants in the garment accessories industry mainly focus on the business of printed products, woven labels and printed labels; other garment accessories products merely occupy a small proportion of their overall revenue. Printed products refers to both offset printing and digital printing printed on paper, card stock or other printed paper based material, which can be divided into hangtags, printed labels, RFID tags and variable data tags and labels, and adhesive labels. Woven labels refer to woven labels and badges which are made from yarns, fabrics, and threads, etc. Printed labels usually refer to screen printing which printed on a soft high quality silk or ribbon.

## INDUSTRY OVERVIEW

### Value Chain of the PRC Garment Accessories Market



Source: F&S Report

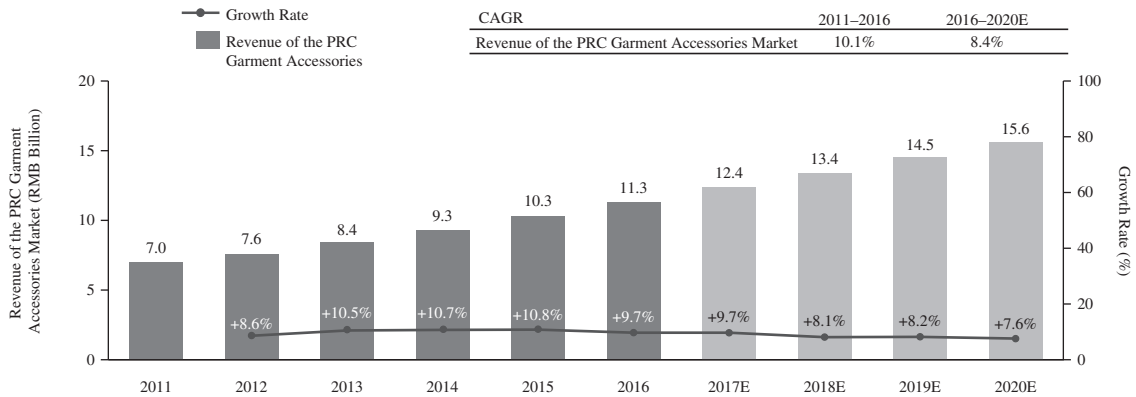
In general, domestic value chain of the PRC garment accessories market can be categorised into five main parts including raw material suppliers, garment accessories manufacturers, garment manufacturers, sourcing companies and garment brand companies.

The garment accessories manufacturers have close relationships with garment brand companies. The garment accessories manufacturers cooperate with the garment brand companies directly or through their sourcing companies to participant in research and design of garment accessories and to provide quality assurance service of them. Once cooperation is established with garment brand companies and their sourcing companies, the garment accessories manufacturers would be in the nominated suppliers shortlist. Meanwhile, the garment manufacturers have to choose the garment accessories suppliers from the shortlists based on different requirements of various products. It is an industry norm that garment accessories manufacturers do not sign long-term contact with garment manufacturers. It is the industry norm for garment brand companies to place orders with garment accessories suppliers through sourcing companies/garment manufacturers.

# INDUSTRY OVERVIEW

## Size of the PRC Garment Accessories Market

### Retail Revenue of the PRC Garment Accessories Market 2011–2020E



Source: F&S Report

Note: The market revenue includes the domestic sales of garment accessories in the PRC; but excludes the export sale of garment accessories

Along with further development of garment market, the PRC garment accessories market developed relatively rapidly in the recent years. The total revenue of this market has grown from RMB7.0 billion in 2011 to RMB11.3 billion in 2016 with a CAGR of 10.1%.

In the following years, with the improvement of printing technology and shortening of garment updating cycle, the PRC garment accessories market is likely to have great growth potential. In 2020, the total revenue of the PRC garment accessories market is expected to reach RMB15.6 billion with a CAGR of 8.4% from 2016 to 2020.

## Main Drivers and Opportunities of the PRC Garment Accessories Market

### Further Development of Garment Market

In the period of 2011 to 2015, the PRC garment market has achieved a steady growth, the total retail sales revenue of this market increased from RMB1,381.0 billion in 2011 to RMB2,013.9 billion in 2015, representing a CAGR of 9.9%. Accordingly, the further development of garment market will bring a positive impact on the garment accessories industry.

### Shortening Garment Updating Period

Fast fashion is a growing trend, which in general target the young fashion consumer group aged 25 to 35 with higher incomes and good education and make clothes meet the needs of fast-changing and affordable fashion. In order to remain successful and to sustain their market share, the fast fashion brand companies have to respond to rapidly changing consumer preferences. With the rapid development of this segment, the garment updating period has greatly shortened, therefore the demand for garment accessories has grown accordingly.

## INDUSTRY OVERVIEW

### *The Multifunction of Labels*

In recent years, the application of RFID technology in the PRC garment accessories market enjoyed a rapid growth. The penetration rate of RFID technology in the PRC garment accessories market increased from approximately 9.5% in 2011 to approximately 20.0% in 2016, with a CAGR of 16.1%. In the future, the penetration rate of RFID technology in the PRC garment accessories market is expected to reach 29.5% in 2020, with a CAGR of 10.2% from 2016. Due to the development of RFID technology, the label and other garment accessories, in essence, have transformed into a multi-function tool that go far beyond their original character as plain white tags. As the electronic data interchange technology matures which allows retailers to track the flow of garment products into and out of their stores, the labels have delivered a much higher level of business value by playing many different but synergistic roles including variable data management, brand identity and supply chain management. These labels have become strategic assets in the garment industry's attempt to improve its operations and deliver better service their customers.

### **Entry Barrier of the PRC Garment Accessories Market**

#### *Scale and Capital*

Due to rising production costs, especially the costs of raw materials, industry players face difficulties of making profit. Large enterprises with a positive scale economies effect are therefore the most competitive type in the market. With effective cost control, they are able to maintain an above-average product quality still with a desirable profit margin. It is also crucial for the new entrants to have sufficient capital support to ensure large scale of production.

#### *Equipment and Employees*

For garment accessories manufacturers which target the garment market, investment on product design and development is crucial as they rely on advanced equipment and skilled employees to deliver high quality products. With more emphasis putting on the quality of the label which represents the value of the garments to some extent, the garment accessories manufacturers should make consistent investments on equipments and human resources in order to meet clients' demands.

#### *Customer Bases*

Sales network and customer relationship are another key barriers for the new entrants to garment accessories industry. Garment brand companies value historical partnerships highly when selecting their suppliers. Key players in the market have established a reliable and stable supply chain and good relationship with garment brand companies. Thus, it is rather difficult for new entrants to establish their own customer bases in short term.



## INDUSTRY OVERVIEW

### Competitive Landscape of the PRC Garment Accessories Market in the PRC

*Ranking and market share of top 10 companies by sales revenue in the PRC garment accessories market 2016*

Ranking	Company Name	Company Profile	Market Share by Sales Revenue in 2016 (%)
1	Competitor A	Competitor A is a multinational corporation and listed in NYSE, its China head office is located in Shanghai. The principal business of Company A focuses on manufacturing and distributing of functional pressure-sensitive adhesive label and packaging materials.	3.1%
2	Competitor B	Competitor B is a global business and branding solutions provider for brand owners and retailers, its China head office is located in Dongguan.	2.1%
3	Competitor C	Competitor C is a one-stop garment accessories provider that is located in Shanghai.	1.6%
4	Competitor D	Competitor D is a local garment accessories provider that is located in Dongguan.	1.3%
5	Competitor E	Competitor E is a garment accessories provider that was established in Hong Kong since 1970's.	1.1%
6	Competitor F	Competitor F is a global textile, apparel and garment accessories manufacturer with a vertically-integrated supply chain.	1.1%
7	<b>Our Group</b>	<b>Our Group is one of the leading garment accessories providers in the PRC with headquarter in Huizhou.</b>	<b>0.9%</b>
8	Competitor G	Competitor G is a garment accessories provider that established in Hong Kong since 1950's.	0.8%

## INDUSTRY OVERVIEW

Ranking	Company Name	Company Profile	Market Share by Sales Revenue in 2016 (%)
9	Competitor H	Competitor H is a local garment accessories provider that based in Dongguan.	0.6%
10	Competitor I	Competitor I is a local garment accessories provider that located in Shenzhen.	0.5%
		<b>Top 10</b>	13.1%
		<b>Others</b>	86.9%
		<b>Total</b>	100%

*Source: F&S Report*

There are more than thousands of garment accessories manufacturers which focus on the business of printed products, woven labels and printed labels in the PRC. The PRC garment accessories market was relatively fragmented, with top five market players accounting for around 9.2% of the market share in 2016. The sales revenue of our Group in 2016 took a market share of 0.9% and ranked seventh place in the PRC garment accessories market. Comparing with our competitors, our Directors believe that our Group has a diversified products portfolio include hangtag, woven label, price tag, size label, care content label, sticker, badge and string lock etc. The diversified product portfolio allows our Group to meet different needs of our customers. Moreover, the stable customer relationship brings long-term business opportunities to our Group.

### **Threats**

*Garment manufacturers may move away from the PRC to other countries with lower operating costs*

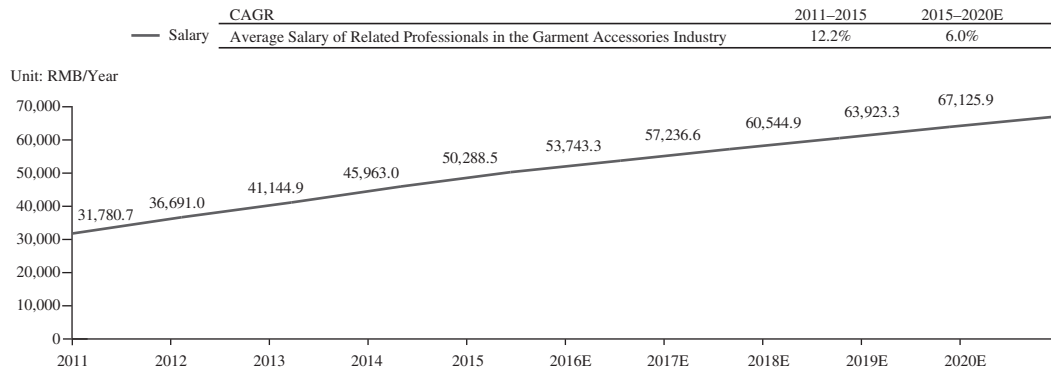
There was a trend of PRC garment manufactures moving their factories from the PRC to South East Asian countries with lower labour costs such as Cambodia. As a result, these companies may also source their garment accessories locally in those countries. If the PRC garment manufacturers move their factories from the PRC to other places, the PRC garment accessories manufacturers may lose their customers and their financial conditions and results of operations may be materially and adversely affected.

*Rising Cost of Labour*

Due to economy growth in the PRC, labour cost has kept rising during these years. Taking textile and garment manufacturing regions Yangtze River and Pearl River Delta as an example, the minimum wage standard has increased a lot during these years. The continuously rising labour cost influence the operating cost for most garment accessories manufacturers. Accordingly, the rising cost of labour can be regarded as one of the challenges for most garment accessories manufacturers in the future.

## INDUSTRY OVERVIEW

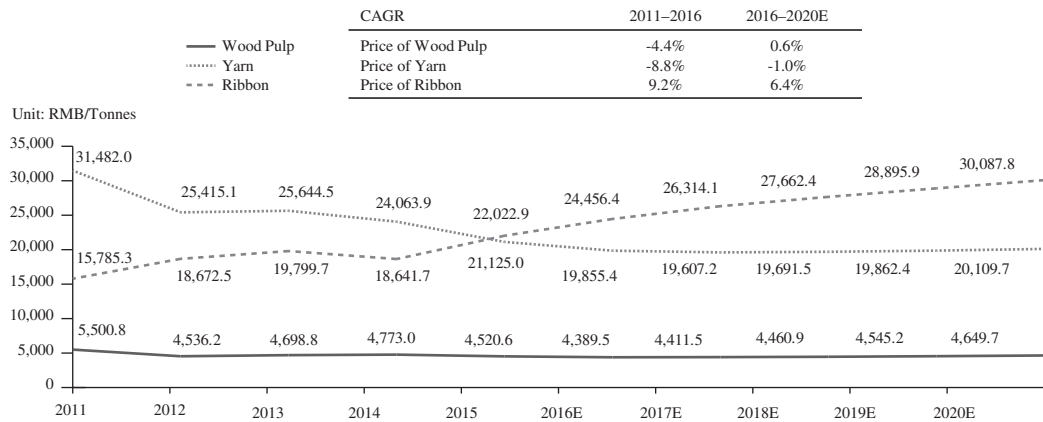
### The Average Salary of Related Professionals in the PRC Garment Accessories Industry 2011–2020E



Source: F&S Report

### Price Trend of Raw Materials

#### Price Trend of Wood Pulp, Yarn and Ribbon (The PRC), 2011–2020E



Source: F&S Report

In the PRC, the price of wood pulp showed a fluctuant trend in the recent five years. For example, in 2011, the price of wood pulp reached its peak with RMB5,500.8 per tonne. However, from 2012 to 2015, the price of wood pulp fell back to some extent and amounted to RMB4,520.6 per tonne in 2015. Meanwhile, the price of yarn witnessed a downward trend. The price of yarn reached RMB21,125.0 per tonne in 2015. The price of ribbon increased from the RMB15,785.3 per tonne in 2011 to RMB22,022.9 per tonne in 2015.

In the near future, the price of wood pulp and ribbon is likely to grow at a CAGR of 0.6% and 6.4%, respectively, mainly due to the economic rise and further development of packaging market. The price of yarn is expected to gradually consolidate to RMB20,109.7 per tonne in 2020.

## REGULATORY OVERVIEW

*This section provides a summary of the material regulations directly relevant to our current and future businesses and how these regulations will affect our business operations and future developments. As this is a summary, it does not contain a detailed analysis of the regulations which are relevant to our business and operations. Prospective investors should not place undue reliance on the statements under this section and should consult their own professional advisers about the regulations referred to under this section.*

### PRC LAWS AND REGULATIONS

Set out below is a summary of the most significant laws and regulations that affect our business and operations in the PRC. Information contained in this section of this prospectus should not be construed as a comprehensive summary of laws and regulations applicable to us.

### LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Companies with limited liability and joint stock companies with limited liability established and operating in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》) (the “**PRC Company Law**”), which was passed by the Standing Committee of the National People’s Congress (the “**SCNPC**”) on 29 December 1993 and was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013, respectively. The PRC Company Law was amended by the SCNPC on 28 December 2013 and became effective from 1 March 2014. The major amendments include, but are not limited to, cancelling the paid-up capital registration and removing the statutory minimum registered capital requirements and the statutory timeframe for the capital contribution. The establishment procedures, verification and approval procedures, registered capital requirements, foreign exchange control, accounting practices, taxation, labour matters and all other relevant matters of a wholly foreign-owned enterprise shall be subject to the Foreign-Invested Enterprise Law of the PRC (《中華人民共和國外資企業法》) (the “**Foreign-Invested Enterprise Law**”), which was promulgated by the SCNPC on 12 April 1986 and amended on 31 October 2000 and 3 September 2016, and the Implementation Rules of the Foreign-Invested Enterprise Law of the PRC (《中華人民共和國外資企業法實施細則》) (the “**Implementation Rules**”), which were promulgated by the Department of the Foreign Economic and Trade of the PRC on 12 December 1990 and amended by the PRC State Council (the “**State Council**”) on 12 April 2001 and 19 February 2014. The Provisional Measures for Filing Administration of Establishment and Changes of Foreign-invested Enterprise (《外商投資企業設立及變更備案管理暫行辦法》) (the “**Provisional Measure**”), promulgated by the Ministry of Commerce of the People’s Republic of China (the “**MOFCOM**”) and came into force on 8 October 2016.

Under the Foreign-Invested Enterprise Law, the Implementation Rules and the Provisional Measures, applications for the establishment of the foreign-invested enterprise which is subject to the implementation of special administrative measures for admission, shall be submitted for examination and approval by the State Council department in charge of foreign economic relations and trade, or a body authorised by the State Council. In the event of a division, merger or other major changes to the group structure, a foreign-invested enterprise shall report to, and seek approval from, the examining and approving body and carry procedures for registration of such changes with the industrial and commercial administrative authorities. However, for establishment or other major changes of foreign-invested enterprises which are not subject to the implementation of special administrative measures for admission stipulated by the State Council, such matters shall be only subject to filing administration.

## REGULATORY OVERVIEW

As to filing administration, according to the Provisional Measures, filing authorities conduct filing activities through the comprehensive administration information system for foreign investment. To establish a foreign-invested enterprise falling within the filing scope in the Provisional Measures, after obtaining the pre-approval for the name of the enterprise, the designated representative or agent jointly who was entrusted by all the investors (or all the initiators of a foreign-invested company limited by shares) shall prior to the issuance of business licence, or the designated representative or agent who was entrusted by the foreign-invested enterprise shall, within 30 days after the issuance of business licence, fill out and submit the filing application for establishment of a foreign-invested enterprise and relevant documents through the comprehensive administration information system for foreign investment.

The Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者並購境內企業的規定》) (the “**M & A Rules**”), promulgated by six PRC ministries including MOFCOM, State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration for Industry and Commerce of the People’s Republic of China (the “**SAIC**”), China Securities Regulatory Commission and State Administration of Foreign Exchange (“**SAFE**”) on 8 August 2006 and became effective on 8 September 2006 and was amended on 22 June 2009, provides the rules with which foreign investors seek to purchase by agreement the equities of the shareholders of a domestic non-foreign-funded enterprise or subscribe to the increased capital of a domestic non-foreign-funded enterprise, and thus change the domestic non-foreign-funded enterprise into a foreign funded enterprise, or to conduct an asset merger and acquisition.

### LAWS AND REGULATIONS RELATING TO THE PRODUCT QUALITY

The principal legal provisions governing product liability are set out in the Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the “**Product Quality Law**”), which was promulgated by the SCNPC on 22 February 1993 and became effective on 1 September 1993, and was amended on 8 July 2000 and 27 August 2009, respectively. Product Quality Law has been formulated with a view to reinforcing the supervision and regulation of product quality, improving the quality of products, clarifying the liabilities for product quality, protecting the legitimate rights and interests of consumers and safeguarding the social and economic order. It is applicable to all activities of production and sale of any product within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with the Product Quality Law. According to the Product Quality Law, it is forbidden to forge or infringe upon quality marks such as certification marks and marks for fine quality products; it is forbidden to forge the place of origin, forge or infringe upon the factory names, factory addresses; it is forbidden to produce or market adulterated products or to use fake goods as genuine or sub-standard products as standard.

### LAWS AND REGULATIONS RELATING TO SAFTY PRODUCTION

The Regulations on Safe Production of Guangdong Province(《廣東省安全生產條例》) was promulgated by the Standing Committee of Guangdong Provincial People’s Congress on 27 September 2013 and implemented on 1 January 2014. Pursuant to the Regulations on Safe Production of Guangdong Province, manufacturers and business operators, other than those employing more than 1,000 workers and/or engaging in special business scope such as mining, storing and transportation of dangerous goods, shipbuilding melting, etc., which employ more than 300 workers, shall set up a work safety management department or allocate full-time work safety management personnel; and those which employ less than 300 workers shall allocate full-time or part-time work safety management personnel, or

## REGULATORY OVERVIEW

entrust an organisation qualified to provide work safety and occupational health services or engineering and technical personnel who have the relevant technical qualifications stipulated by the State to provide work safety management and technical services. Manufacturers and business operators which failed to set up a work safety management department or allocate work safety management personnel, shall be ordered by the work safety supervision and administration authorities to rectify within a prescribed time limited, failing which it will be ordered to suspend production and operation, and penalised.

According to the Regulations of Management of Licensed Safety Officers in Guangdong Province (《廣東省註冊安全主任管理規定》) which was promulgated by the People's Government of Guangdong Province on 26 December 2003 and implemented on 1 March 2004, manufacturers and business operators, other than those engaging in special business scope such as mining, building construction and installation, manufacturing, storing and transportation of dangerous goods, which employ more than 300 workers but less than 500 shall engage at least one licenced safety officers.

### **LAWS AND REGULATIONS RELATING TO THE PRINTING INDUSTRY**

The initial framework for regulating the domestic printing industry was provided in the Regulations on the Administration of Printing Industry (《印刷業管理條例》) which was promulgated by the State Council on 2 August 2001, and revised and implemented on 6 February 2016 and 1 March 2017, respectively. Under these provisions, enterprises applying to engage in the business of printing of packaging materials and other printed matter shall present their business licence to submit an application to the administrative department for publications of the local People's Government of the municipality divided into districts and shall be issued with a printing business permit upon examination and approval of the application.

Pursuant to the Interim Provisions on the Qualifications of Printing Operations (《印刷業經營者資格條件暫行規定》) issued by the General Administration of Press and Publication (the "GAPP") (now known as The State Administration of Press, Publication, Radio, Film and Television) on 9 November 2001, and amended on 28 August 2015, enterprises undertaking decoration and packaging printing shall have the enterprise's title and articles of association; shall have a specific business scope; shall have operation place(s) suitable for operation of printing business; shall have enough money for normal production and operation; shall have necessary equipment for decoration and packaging printing, including at least 2 sets of automatically bisecting and offset printing equipment which were manufactured in the recent 10 years and have not been listed in the Catalog of Behindhand Equipment, Crafts and Products Which Shall be Eliminated (《淘汰落後生產能力、工藝和產品的目錄》); shall have corresponding organisations and personnel necessary for the operation where the legal representative and major production or operation principals must have the Certificate of Printing Regulations Training (《印刷法規培訓合格證書》) granted by the press and publication administrations at prefecture and city level; shall have completed systems of printing undertaking verification, printing undertaking registration, printed goods custody, printed goods delivery, printed defective goods destroying, financial and quality control.

The Interim Provisions on the Establishment of Foreign Investment Printing Enterprise (《設立外商投資印刷企業暫行規定》), which was promulgated and implemented by GAPP (now known as The State Administration of Press, Publication, Radio, Film and Television) and Ministry of Foreign Trade and Economic Cooperation (now known as MOFCOM) on 29 January 2002 and amended by the State Administration of Press, Publication, Radio, Film and Television on 28 August 2015 applies to the

## REGULATORY OVERVIEW

printing enterprises with foreign investment established in the PRC. Foreign investment in decoration and packaging printing can be established as a wholly foreign owned enterprise, while foreign investment in other printing is not allowed to establish a wholly foreign owned enterprise but only in the form of equity joint venture or contractual joint venture. The establishment of a foreign invested enterprise shall apply for the approval from the provincial administrative department in charge of press and publication of the place where the enterprise is to be located. The term of operation of the enterprise shall, as a general principle, be no more than 30 years. A foreign-invested printing enterprise shall not establish any branch organisation.

On 12 November 2008, the GAPP (now known as The State Administration of Press, Publication, Radio, Film and Television) and MOFCOM promulgated Supplement to the Interim Provisions on the Establishment of Foreign Investment Printing (《關於設立外商投資印刷企業暫行規定的補充規定》), which came into force on 1 January 2009. Under this regulation, the registered capital threshold for foreign invested enterprise engaging in decoration and packaging printing as stipulated in the Interim Provisions on the Establishment of Foreign Investment Printing Enterprise is no longer applicable to Hong Kong or Macau investors. Hong Kong or Macau investors shall have the same registered capital threshold as domestic investors.

The Provisions on the Administration of Undertaking of Presswork Printing (《印刷品承印管理規定》) was jointly issued by GAPP (now known as The State Administration of Press, Publication, Radio, Film and Television) and Ministry of Public Security on 18 July 2003, and became effective on 1 September 2003. The purpose of the Provisions on the Administration of Undertaking of Presswork Printing is to regulate the printing activities of printing operators, perfect the administrative system of the undertaking of printing, and promote the healthy development of the printing industry. It stipulates that where a printing enterprise accepts an entrustment to print the marks of a registered trademark, it must verify the Certificate of Trademark Registration, or the duplication thereof signed by the administrative department of industry and commerce at the county level of the place where the trademark registrant is located, and shall check the pattern of the registered trademark supplied by the entrusting party; where the printing enterprise accepts an entrustment of a party licensed to use a registered trademark to print the mark of that registered trademark, it must also verify the contract of licensed use of the registered trademark. In addition, where a printing enterprise accepts an entrustment to print advertisement publicities, and the presswork used as product packaging, it must verify the business licence of the entity or the resident identification card of the individual entrusting the printing; in the case of entrustment of any advertisement operator to print advertisement publicities, the enterprise must also verify the qualification certificate of that operator for advertisement operations.

Pursuant to the Measures for the Administration of Printing and Production of Trademarks(《商標印製管理辦法》) promulgated by the SAIC on 19 August 2004 and came into force on 1 September 2004, the trademark printing and production entity shall verify the certification documents and sample trademark pattern provided by the entrusting party of trademark printing and production. The trademark printing and production entity shall establish a system for ins and outs of trademark signs, shall establish a record account for the ins and outs of trademark signs. All the discarded and inferior trademark signs shall be destroyed, which shall not flow into the society. Anyone who establishes a trademark printing enterprise or carries out trademark printing business activities without approval, would be punished by the competent administration for industry and commerce.



## REGULATORY OVERVIEW

All the products that STL Garment Accessories prints fall within the scope of packaging and decorating prints, which are covered by its printing business permit. Though the approved business scope showed in the printing business permit of STL Garment Accessories is broader than packaging and decorating prints, our PRC Legal Advisers advised that issuance of printing business permit to STL Garment Accessories is administrative licensing behaviour of Huizhou Culture, Radio and Television, Publication Department, which shall not constitute any breach of Regulations on the Administration of Printing Industry (印刷業管理條例) and the Interim Provisions for the Establishment of Foreign Investment Printing Enterprises (設立外商投資印刷企業暫行規定) by, or any other illegal activity of, STL Garment Accessories and the printing business conducted by STL Garment Accessories is not subject to foreign ownership restriction. According to Law of the People's Republic of China on Administrative Licensing (中華人民共和國行政許可法), administrative licences granted to a company in accordance with laws shall be protected by the laws. Our PRC Legal Advisers advised that the printing business permit obtained by STL Garment Accessories has taken effect and is legally valid. Huicheng Branch of Huizhou Culture, Radio and Television, Publication Department has confirmed in an interview that it did not notice any breach of laws and regulations by STL Garment Accessories in respect of its printing business.

### **LAWS AND REGULATIONS RELATING TO COMMODITY BARCODE**

#### **The Measures for the Administration of Commodity Barcodes**

Under the Measures for the Administration of Commodity Barcodes (《商品條碼管理辦法》) promulgated by the General Administration of Quality Supervision, Inspection and Quarantine on 30 May 2005 and became effective on 1 October 2005, an enterprise engaged in the commodity barcodes printing may apply to the barcodes working organ for printing qualification. The printing enterprise that has obtained the printing qualification may be given priority when undertaking the printing business of commodity barcodes. A printing enterprise shall print commodity barcodes pursuant to the relevant state standards, and guarantee the printing quality of commodity barcodes. When a printing enterprise accepts the printing business of commodity barcodes, it shall check the Certificate of System Member of the client or the overseas certificate with the same effect, and conduct the archival filing. The working organ of barcodes encourages entities to consign the printing enterprise with commodity barcodes printing qualification to print the commodity barcodes.

#### **The Measures of Guangdong Province for Administration of Commodity Barcodes**

The Measures of Guangdong Province for Administration of Commodity Barcodes (《廣東省商品條碼管理辦法》) which was promulgated by Guangdong Provincial People's Government on 20 January 2005 and became effective on 1 March 2005, is formulated for the purpose of standardising the administration of commodity barcodes, accelerating the popularisation and application of commodity barcodes and promoting information-technology-based administration of commodity circulation in Guangdong Province. The printing of commodity barcodes shall conform to relevant State standards and the quality thereof shall be guaranteed. Where original films are needed to print commodity barcodes, they shall be subscribed from producers of original films for commodity barcodes. Producers of original films for commodity barcodes shall have the original films produced in accordance with relevant State standards and the quality thereof shall be guaranteed. A printing enterprise that undertakes the business of printing commodity barcodes shall check and examine the System Membership Certificate corresponding to the commodity barcodes to be printed or the documents for record of the commodity



## REGULATORY OVERVIEW

barcodes registered abroad, photocopy them and put the copies on file for a period of two years for check. If a client cannot show the System Membership Certificate or the documents for record, no printing enterprise may undertake the printing.

### LAWS AND REGULATION RELATING TO ENVIRONMENTAL PROTECTION

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), which was passed and came into force on 26 December 1989 by the SCNPC and then amended on 24 April 2014 and came into force on 1 January 2015, provides a regulatory framework to protect and develop the environment, prevent and reduce pollution and other public hazards, and safeguard human health. According to the Environmental Protection Law, enterprises and other manufacturers shall prevent and reduce environmental pollution and ecological damage as well as take the liabilities for the damages caused.

The Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) was passed on 28 October 2002 by the SCNPC and amended on 2 July 2016, and then became effective on 1 September 2016. Environmental impact assessment refers to analyse, forecast and assess possible environmental impacts arising from performance of planning and construction projects, propose corresponding policies and measures to prevent or reduce such adverse environmental impacts and the methods and systems used for tracking monitoring. The State shall implement classified administration of environmental impact assessment for construction projects in accordance with the degree of environmental impacts of construction projects.

The construction unit shall produce environmental impact reports and environmental impact statements or complete environmental impact registration forms as the case may be. In the event of possible significant environmental impact, an environmental impact report shall be prepared for comprehensive assessment of the environmental impact. In the event of slight environmental impact, an environmental impact statement shall be prepared for analysis or assessment of specific items relating to the environmental impact. In the event of minimal environmental impact which does not warrant an environmental impact assessment, an environmental impact registration form shall be completed. After the environmental impact appraisal document of a construction project has been approved, if either the nature, scale, venue, the production techniques employed or the measures for preventing pollution and preventing ecological damage has undergone substantial changes, the entity under construction shall submit new environmental impact appraisal documents of the construction project for examination and approval. Where an entity under construction unlawfully commences the construction of a project without submitting for approval its environmental impact report or report form in accordance with the law, or without reporting for approval of construction project which underwent substantial changes or requesting the re-examination of the environmental impact report or report form in accordance with the law, the environmental protection administrative department at or above the county level shall order it to cease construction, and according to the circumstances of violation of law and damage, impose a fine of not less than 1% but not more than 5% of the total investment of the construction project on it, and order it to restore to the original state; and in accordance with the law, take disciplinary actions against the directly responsible person in charge and other directly liable persons of the construction entity.

Guangdong Province Environmental Protection Regulation (《廣東省環境保護條例》) was promulgated on 24 September 2004 by the Standing Committee of Guangdong Provincial People's Congress, and was amended on 13 January 2015 and became effective on 1 July 2015. Under the regulation, an emission permit administration system pursuant to the provisions of the law was

## REGULATORY OVERVIEW

established in Guangdong. Emission of pollutants without first obtaining an emission permit pursuant to the law or against the requirements of the emission permit obtained is prohibited. Pollutant emission by enterprises, institutions and other manufacturers and business operators shall comply with the pollutant emission standards and total quantity control indexes for key pollutant emission stipulated by the State or the local government. Besides, enterprises, institutions and other manufacturers and business operators may entrust an organisation with the corresponding competency to operate their pollution prevention and treatment facilities or implement pollution control, enter into an agreement with the entrusted organisation, and specify the rights and obligations and environmental protection responsibilities for both parties. The entrusted organisation shall comply with the requirements of environmental protection laws and regulations and the relevant technical specifications.

According to Guangdong Province Emission Permit Regulation (《廣東省排污許可證管理辦法》), which was promulgated by Guangdong Provincial People's Government on 27 January 2014 and became effective on 1 April 2014, the pollutant discharge unit that discharges pollutants in Guangdong shall obtain Emission Permit, if it emits atmospheric pollutants or industrial waste water, medical sewage and other waste water and sewage containing heavy metals, pathogens and other toxic and harmful substances. Where a pollutant discharge unit discharge pollutants without Emission Permit, it may be ordered to stop discharging pollutants and be subject to a fine ranging from RMB50,000 to RMB100,000; If the circumstances are serious or it refuses to correct its behavior within the time limit, it may be suspended production by the relevant PRC authorities.

### LAWS AND REGULATIONS RELATING TO FIRE PREVENTION

Pursuant to the Fire Services Law of the People's Republic of China (《中華人民共和國消防法》), which promulgated by the SCNPC on 29 April 1998 and subsequently amended on 28 October 2008, which formulated for the purposes of preventing fire disasters and reducing fire hazards, strengthening emergency rescue operations, protecting personal and property safety and safeguarding public security. Fire brigades of public security agencies shall carry out supervision and inspection of compliance of fire services laws and regulations by enterprises. The fire brigade of a public security agency shall notify the relevant organisations or individuals of hidden fire hazards discovered in fire services supervision and inspection to forthwith adopt measures to eliminate the hidden hazards; where public security may be seriously compromised if the hidden hazards are not promptly eliminated, the fire brigade of the public security agency shall adopt temporary seizure measures for the hazardous location or site pursuant to the provisions.

### LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE CONTROL

Due to the foreign exchange control policy of the PRC, cross border money transactions of PRC subsidiaries in their business activities and dividend distribution to the foreign investors of the PRC subsidiaries shall comply with various administration of foreign exchange in the PRC.

The principal regulation governing foreign exchange in the PRC are the Foreign Exchange Administration Rules of the PRC (《中華人民共和國外匯管理條例》) which was promulgated by the State Council on 29 January 1996 and became effective on 1 April 1996, and was last amended on 1 August 2008 took effect on 5 August 2008. These regulations are formulated for the purposes of strengthening foreign exchange control, promoting balance of international receipts and payments, and promoting sound development of national economy. Under these rules, the current account incomes of foreign exchanges can be retained or sold to financial institution which manage exchange settlement and

## REGULATORY OVERVIEW

sale and purchase of foreign exchange. Foreign exchange receipts and payments under current account items shall be based on true and legitimate transactions. Financial institutions engaging in conversion and sale of foreign currencies shall, pursuant to the provisions of the foreign exchange control department of the State Council, carry out reasonable examination of the veracity of transaction documents and the consistency of the transaction documents and the foreign exchange receipts and payments. The foreign exchange control authorities shall have the right to carry out supervision and inspection of matters. Overseas organisations and overseas individuals making direct investments in China shall, upon approval by the relevant authorities in charge, process registration formalities with the foreign exchange control authorities. Overseas organisations and overseas individuals engaging in issuance and trading of quoted securities or derivatives in China shall comply with the market entry provisions of the State and process registration formalities pursuant to the provisions of the foreign exchange control department of the State Council.

Under the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (“**Circular 13**”) promulgated by the SAFE on 13 February 2015 and became effective on 1 June 2015, to improve the efficiency on foreign exchange management, the SAFE (i) has cancelled approval of foreign exchange registration under domestic direct investment and approval of foreign exchange registration under overseas direct investment; (ii) has replaced confirmation and registration of monetary contribution by foreign investors with entry registration of monetary contribution under domestic direct investment. In the event that a foreign investor makes contribution in the monetary form (including cross-border foreign exchange remittance and RMB), the deposit bank shall, upon receipt of the relevant capital funds, carry out entry and registration of monetary contribution of domestic direct investment via the SAFE Capital Account Information System directly before the capital funds can be used.

According to the Notice of the State Administration of Foreign Exchange on Reforming the Management Mode of Foreign Exchange Capital Settlement of Foreign Investment Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (“**Circular 19**”) promulgated on 30 March 2015 and came into force on 1 June 2015, (i) the system of willingness-based foreign exchange settlement is adopted for the foreign exchange capital of foreign-invested enterprises. The willingness-based settlement of foreign exchange capital of foreign-invested enterprises refers to that the foreign exchange capital, for which the monetary contribution has been confirmed by the foreign exchange authorities (or for which the monetary contribution has been registered for account entry) in the capital account of a foreign-invested enterprise may be settled at a bank as required by the enterprise’s actual management needs. The proportion of willingness-based foreign exchange settlement of capital for a foreign-invested enterprise is temporarily set at 100%; (ii) The RMB funds obtained by a foreign-invested enterprise from its willingness-based exchange settlement of capital shall be included into the foreign exchange settlement accounts for pending payment; (iii) A foreign-invested enterprise shall use capital under the authentic and self-use principles within its business scope. Foreign-invested enterprises are prohibited to use capital and the foreign exchange capital settled in RMB (a) for any direct or indirect expenditures beyond the business scope of the foreign-invested enterprises or forbidden by laws and regulations; (b) for direct or indirect securities investment, unless otherwise provide by any law or regulation; (c) to provide entrusted loans or repay loans between enterprises, except specified in the business scope; (d) to purchase real estate’s not for self-use purposes (save for real estate enterprises).

### LAWS AND REGULATIONS RELATING TO TAXATION

#### Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), which was passed by the National People's Congress in China (the "NPC") on 16 March 2007 and came into effective on 1 January 2008 and then amended on 24 February 2017, and its Implementation Regulations (《企業所得稅法實施條例》), which was promulgated by the State Council on 6 December 2007 and came into effect on 1 January 2008, enterprises are classified into resident enterprises and non-resident enterprises. A resident enterprise shall pay enterprise income tax on its income deriving from both inside and outside China at the rate of enterprise income tax of 25%. A non-resident enterprise that has an establishment or place of business in the PRC shall pay enterprise income tax on its income deriving from China domestically and obtained by such establishment or place of business, and on its income which derives from outside China but has actual relationship with such establishment or place of business, at the rate of enterprise income tax of 25%. A non-resident enterprise that does not have an establishment or place of business in China, or has an establishment or place of business in China but the income has no actual relationship with such establishment or place of business, shall pay enterprise income tax on its income deriving from inside China at the reduced rate of enterprise income tax of 10%.

#### Withholding Income Tax

Pursuant to the Enterprise Income Tax Law of the PRC and its Implementation Regulations, dividends generated after 1 January 2008 and payable by a foreign invested enterprise in the PRC to its foreign investors are subject to a 10% withholding income tax, unless otherwise provided in the tax treaty concluded between the PRC and such foreign investor's jurisdiction of incorporation.

Pursuant to the Treaty on the Avoidance of Double Taxation and Tax Evasion between Mainland and Hong Kong (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the "Tax Treaty") concluded on 21 August 2006, the applicable withholding income tax rate for any dividends declared by a Chinese company is 5% for a shareholder being a Hong Kong resident holding at least 25% interest in its registered capital, or 10% for a shareholder being a Hong Kong resident holding less than 25% interest in its registered capital. According to the Announcement on the Administrative Measures for Non-resident Taxpayers to Enjoy the Treatment Under Tax Treaties (《非居民納稅人享受稅收協定待遇管理辦法》), which was promulgated by the State Administration of Taxation on 27 August 2015 and became effective on 1 November 2015, for withholding at source and designated withholding, where a non-resident taxpayer asserts that it satisfies the criteria for entitlement to tax treaty benefits and claims tax treaty benefits, it shall apply to the withholding agent, and provide the relevant reports, statements and materials stipulated to the withholding agent. Where the materials submitted by the non-resident taxpayer to the withholding agent are complete, and the information stated in the relevant reports and statements satisfy the criteria for entitlement to tax treaty benefits, the withholding agent shall make withholding pursuant to the provisions of the tax treaty, and forward the relevant reports, statements and materials to the tax authorities in charge when making withholding declaration. Where the non-resident taxpayer does not apply to the withholding agent to claim the tax treaty benefits, or the materials and the information stated in the relevant reports and statements provided to the withholding agent do not satisfy the criteria for entitlement to tax treaty benefits, the withholding agent shall withhold tax pursuant to the provisions of domestic tax laws.

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### Value-added Tax

The Interim Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》), which was promulgated by the State Council on 13 December 1993, came into force on 1 January 1994, and was amended on 10 November 2008 and on 6 February 2016, and the Implementation Rules of the Interim Regulations on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》), which was promulgated by the PRC Ministry of Finance and became effective on 25 December 1993, and was amended on 15 December 2008 (became effective on 1 January 2009) and 28 October 2011 (became effective on 1 November 2011), set out that entities or individuals engaging in sale of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC shall pay value-added tax. Unless provided otherwise, the rate of value-added tax is 17%.

### LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY

#### Trademarks

The principal legal provisions for the protection of holders of registered trademarks are set out in both the Trademark Law of the PRC (《中華人民共和國商標法》), which was promulgated by the SCNPC on 23 August 1982 and amended respectively on 22 February 1993 (effective from 1 July 1993), 27 October 2001 (effective from 1 December 2001), and 30 August 2013 (effective from 1 May 2014), and the Regulation on Implementation of Trademark Law of the PRC (《中華人民共和國商標法實施條例》) promulgated by the State Council on 3 August 2002 (effective from 15 September 2002), amended on 29 April 2014 and with effective on 1 May 2014. Trademarks approved and registered by the trademark bureau are registered trademarks, including commodity trademarks, service marks and collective trademarks, certification marks, trademark registrants enjoy exclusive rights to use trademark and are protected by the law. Upon expiry of the validity period of a registered trademark, where the trademark registrant intends to continue using the trademark, it shall complete renewal formalities pursuant to the provisions within the 12-month period before the expiry date, where renewal formalities are not completed within the stipulated period, a six-month extension may be allowed. The validity period of each renewal shall be 10 years, commencing from the date following expiry of the preceding validity period of the said trademark. Where renewal formalities are not completed upon expiry of the validity period, the registered trademark shall be cancelled. The trademark bureau shall gazette renewed registered trademarks. For licensed use of a registered trademark, the licensor shall file record of the licencing of the said trademark with the trademark bureau, and the licencing shall be gazetted by the trademark bureau. Non-filing of the licencing of a trademark shall not be contested against a good faith third party. Under the Trademark Law of the PRC, any of the following acts may be regarded as an infringement upon the right to exclusive use of a registered trademark, including (i) to use a trademark identical to a registered trademark on the same type of commodities without licencing by the trademark registrant; (ii) to use a trademark similar to a registered trademark on the same type of commodities without licencing by the trademark registrant, or use a trademark identical or similar to the registered trademark on similar commodities which easily causes confusion; (iii) to sell commodities which infringe upon exclusive rights to use registered trademarks; (iv) to forge or manufacture labels of other's registered trademark without authorisation or sell forged or unauthorised labels of other's registered trademark; (v) to change a registered trademark without the consent of the trademark registrant, and sell commodities bearing the changed trademark in the market; (vi) to intentionally facilitate infringement of



## REGULATORY OVERVIEW

other's exclusive rights to use trademarks, and assist others in implementation of infringement of exclusive rights to use trademarks; (vii) to cause harm to other's exclusive rights to use registered trademarks.

### LAWS AND REGULATIONS RELATING TO LABOUR PROTECTION

#### Labour Protection

The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), which was passed by the SCNPC on 29 June 2007, came into force on 1 January 2008, and was amended on 28 December 2012, and came into force on 1 July 2013. The Implementation Regulations on the Labour Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》), which were promulgated and came into effective on 18 September 2008 by the State Council, provide that a written labour contract shall be concluded for the establishment of a labour relationship. Labour contracts concluded pursuant to the law shall be legally binding and the employers and the workers shall perform the obligations stipulated in the labour contracts. When recruiting a worker, the employer shall truthfully notify the worker of the job duties, working conditions, work premises, occupational hazards, work safety and health conditions, labour remuneration and any other information in which the worker is interested to know; an employer shall have the right to ask about basic information of the worker in direct relation to the labour contract, the worker shall answer truthfully. Employers shall promptly pay labour remuneration to workers in full amount pursuant to the stipulations of the labour contract and the provisions of the State.

#### Social Insurance and Housing Provident Funds

Under the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated on 28 October 2010 and became effect on 1 July 2011 by the SCNPC, the State shall establish social security systems such as basic pension insurance, basic medical insurance, work injury insurance, unemployment insurance, maternity insurance, etc. to protect the rights of citizens for obtaining material assistance from the State and the society pursuant to the law in the circumstances of old age, illness, work injury, unemployment, childbirth, etc. Employers who failed to promptly contribute social security premiums in full amount shall be ordered by the social security premium collection agency to make or supplement contributions within a stipulated period, and shall be subject to a late payment fine computed from the due date at the rate of 0.05% per day; where payment is not made within the stipulated period, the relevant administrative authorities shall impose a fine ranging from one to three times the amount of the amount in arrears.

Under the Administrative Regulations on Housing Provident Funds (《住房公積金管理條例》), promulgated by the State Council on 3 April 1999 and amended on 24 March 2002, a housing provident fund management centre shall open a special housing provident fund account at a commissioned bank. Employers shall go to the housing provident fund management centre to undertake registration of payment and deposit of the housing provident fund and, upon verification by the housing provident fund management centre, go to a commissioned bank to go through the formalities of opening housing provident fund accounts on behalf of its staff and workers. Each staff member or worker may have only one account. Where, in violation of the provisions of these Regulations, an entity is overdue in the payment and deposit of, or underpays, the housing provident fund, the housing provident fund management centre shall order it to make the payment and deposit within a prescribed time limit; where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a People's court for compulsory enforcement.

## HISTORY, DEVELOPMENT AND REORGANISATION

### OVERVIEW

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 22 January 2016. Pursuant to the Reorganisation as more particularly described in the paragraph headed “Reorganisation” in this section, our Company has become the holding company of our Group for the purpose of the Listing and holds the entire interests of four subsidiaries, namely, New Forest, Smart Trend, STL Garment Accessories and STL Apparel Accessories.

### BUSINESS DEVELOPMENT

Prior to the establishment of our Group, Mr. Lam had accumulated years of experience in managing manufacturing business with different business partners, including the manufacture of knitted garments and garment accessories. In 2001, eyeing the development potential of garment accessories business in Huizhou in light of its close proximity to other cities in Guangdong Province, Mr. Lam decided to, through a Hong Kong investment holding company jointly held by Mr. Lam and his brother, establish STL Garment Accessories as a sino-foreign joint venture with a PRC business partner which was entitled to share 5% of the profit of STL Garment Accessories. STL Garment Accessories is a one-stop garment accessories products and services provider serving (i) garment brand companies, (ii) sourcing companies each designated by a garment brand company and (iii) garment manufacturers in the PRC. In May 2008, as the PRC business partner had not contributed any capital to STL Garment Accessories, STL Garment Accessories was converted into a wholly foreign owned enterprise. Mr. Lam has been the Controlling Shareholder of our Group since its inception. He had been participating in the day-to-day management of STL Garment Accessories until his son, Mr. Gabi Lam, took up the management of the business in 2006. For details of Mr. Lam’s background and experience, please refer to the section headed “Directors and senior management — Directors — Chairman and non-executive Director” in this prospectus.

As our business expanded, in April 2007, Mr. Lam established STL Apparel Accessories in Huizhou through Reach New to serve several new customers. Prior to the Reorganisation, Mr. Lam held the entire beneficial interest in Reach New through his children, namely Mr. Gabi Lam, Mr. Jeffrey Lam and Ms. Man Yee Lam as his nominees for his family arrangement purposes. Mr. Gabi Lam and Mr. Jeffrey Lam gradually took up the management of the business and they have been leading the day-to-day management of our Group in recent years.

We pride ourselves on our production facilities which meet international standards and we continue to renovate and upgrade them over time. As early as April 2003, the British Standards Institution certified the then factory of STL Garment Accessories operated a quality management system meeting the standard of ISO 9001:2008. In February 2012, to cater for our business expansion, we relocated the production facilities of STL Garment Accessories and STL Apparel Accessories to Sandong Digital Industrial Park in Huizhou City (惠州市惠城區三棟數碼工業園), which is a spacious plant with tailored-designed production lines complying with different regulatory requirements as well as the requirements of our customers and serving to streamline our Group’s manufacturing process and enhance our productivity and efficiency. We leased the properties from our connected person. For details of the lease of our factory, please refer to the section headed “Connected transactions” in this prospectus.

## HISTORY, DEVELOPMENT AND REORGANISATION

In light of global concern for environmental protection, we strive to produce environmentally friendly products. In August 2013, Forest Stewardship Council (“FSC”) certified that the source materials and products of STL Garment Accessories met the standards for chain-of-custody by our production and sale of FSC certified mixed and recycled printed paper products. In September 2016, the Institute of the International Association for Research and Testing in the Field of Textile Ecology certified that some of the woven products of STL Garment Accessories met the Oeko-Tax Standard 100. We shall continue to innovate our production processes and products to meet different international standards.

Prior to 2016, we outsourced some printing works to DY Apparel, which was ultimately owned by Mr. Lam, Mrs. Lam, Ms. Fok and two independent third parties as to 55%, 20.5%, 4.5%, 10% and 10% prior to 26 May 2016. On 16 November 2015, STL Garment Accessories obtained a printing operation licence and subsequently expanded our production capacity in relation to printing works. We have commenced undertaking the printing works by our own facilities and ceased our subcontracting to DY Apparel since January 2016. On 26 May 2016, Mr. Lam, Mrs. Lam and Ms. Fok disposed of their interests in DY Apparel to Mr. Huang, being our connected person, for a consideration of RMB11,945,000. The consideration was determined with reference to the net asset value of the holding company of DY Apparel as at 29 February 2016 and the business prospects after arm’s length negotiation. Mr. Huang has undertaken not to, and shall procure his controlled corporations not to, compete with our Group pursuant to a non-competition undertaking dated 24 June 2017. For details of our Group’s subcontracting arrangement with DY Apparel, please refer to the sections headed “Business — Our suppliers and subcontractors” and “Financial information — Related party transactions” in this prospectus.

In September 2016, STL Garment Accessories obtained a commodity barcode printing qualification certificate, which encourages our customers to consign us to print barcodes for commodity.

During the Track Record Period, we had over 1,100 customers; and served over seven major garment brand companies and two sourcing companies contributing over 85% of total revenue. According to F&S, we are one of the leading garment accessories providers in the PRC with diversified products portfolio. With our continuous innovation and quality production facilities, we strive to provide a full range of accessory products and one-stop labelling solutions to our customers and continue to be a leading labelling solution provider in the PRC.

The key milestones in our Group’s development to date are set out below.

<b>Year</b>	<b>Events</b>
December 2001	STL Garment Accessories was established in Huizhou as a sino-foreign joint venture. We set up our first office and factory in Jiangbei Wanjiang Guolek Industrial Zone in Huizhou City (惠州市惠城區江北望江過瀝工業園).
April 2003	The British Standards Institution certified that the then factory of STL Garment Accessories operated a quality management system meeting the standard of ISO 9001:2008.



## HISTORY, DEVELOPMENT AND REORGANISATION

<b>Year</b>	<b>Events</b>
April 2007	STL Apparel Accessories was established in Huizhou to cope with our business expansion.
May 2008	STL Garment Accessories became a wholly foreign owned enterprise.
February 2012	We relocated the production facilities of STL Garment Accessories and STL Apparel Accessories to Sandong Digital Industrial Park in Huizhou City (惠州市惠城區三棟數碼工業區).
August 2013	FSC certified that the products of STL Garment Accessories met the standards for chain-of-custody by our production and sale of FSC certified mixed and recycled printed paper products.
November 2015	STL Garment Accessories obtained a printing operation licence and subsequently expanded our production capacity in relation to printing works.
January 2016	We have commenced undertaking the printing works by our own facilities and ceased our subcontracting to DY Apparel.
September 2016	<p>The Institute of the International Association for Research and Testing in the Field of Textile Ecology certified that some woven products of STL Garment Accessories met the Oeko-Tax Standard 100.</p> <p>STL Garment Accessories obtained a commodity barcode printing qualification certificate, which encourages our customers to consign us to print barcodes for commodity.</p>

### **CORPORATE DEVELOPMENT**

The following is a brief corporate history of the establishment and major changes in the shareholdings of our Company's subsidiaries since their respective dates of incorporation:

#### **New Forest**

New Forest was incorporated in BVI with limited liability on 1 December 2015. It is authorised to issue a maximum of 50,000 ordinary shares of a single class with a par value of US\$1 each. It principally engages in investment holding.

On 23 January 2016, New Forest allotted and issued one subscriber share with a par value of US\$1 each as fully paid to our Company. The entire issued share capital of New Forest then became wholly owned by our Company.

## HISTORY, DEVELOPMENT AND REORGANISATION

### Smart Trend

Smart Trend was incorporated in Hong Kong with limited liability on 15 April 2016. It principally engages in investment holding.

On the date of its incorporation, Smart Trend allotted and issued one subscriber share for a total consideration of HK\$1 as fully paid to New Forest. The entire share capital of Smart Trend became wholly owned by New Forest.

### STL Garment Accessories

STL Garment Accessories, formerly known as Famebish Garment Accessories (Huizhou) Limited\* (爵柏服飾(惠州)有限公司) for the period from December 2001 to October 2010, was established in PRC as a limited liability company on 31 December 2001. It principally engages in the supply of garment accessories.

STL Garment Accessories was established by Famebish Limited (爵栢有限公司) and a PRC business partner as a sino-foreign joint venture with a registered share capital of US\$300,000. At the time of the establishment of STL Garment Accessories, Famebish Limited was owned jointly by Mr. Lam and his brother while the PRC business partner was controlled and managed by a state-owned enterprise.

Shortly after Mr. Lam disposed of his shares in Famebish Limited, in June 2003, Famebish Limited transferred all its equity interest in STL Garment Accessories to Sin Tin Lun (International) Trading Limited. At the material times, the issued share capital of Sin Tin Lun (International) Trading Limited was held by Mr. Lam and Mrs. Lam in equal shares.

In May 2008, as the PRC business partner had not contributed any capital to STL Garment Accessories, STL Garment Accessories was converted into a wholly foreign owned enterprise on application and the entire equity interest in STL Garment Accessories became wholly owned by Sin Tin Lun (International) Trading Limited.

In January 2011, Sin Tin Lun (International) Trading Limited transferred the entire equity interest in STL Garment Accessories to Reach New. Prior to the Reorganisation, Mr. Lam held the entire beneficial interest in Reach New through his children, namely Mr. Gabi Lam, Mr. Jeffrey Lam and Ms. Man Yee Lam as his nominees for his family arrangement purposes. As part of the Reorganisation, such trust arrangements were terminated on 10 December 2015, and Mr. Lam became the sole legal and beneficial owner of Reach New.

On 17 July 2013, the registered capital of STL Garment Accessories increased to US\$1,050,000. All capital was fully paid up by October 2013.

On 20 September 2016, as part of the Reorganisation, Smart Trend acquired the entire equity interest in STL Garment Accessories from Reach New. Upon completion of the registration of the equity transfer by the Administration for Industry and Commerce of Huizhou on 30 November 2016, STL Garment Accessories became wholly owned by Smart Trend.

## HISTORY, DEVELOPMENT AND REORGANISATION

### **STL Apparel Accessories**

STL Apparel Accessories was established in PRC on 29 April 2007 as a limited liability company with a registered share capital of US\$1,000,000. It principally engages in the supply of garment accessories.

At the time of its establishment, the entire equity interest of STL Apparel Accessories was held by Reach New. As mentioned above, prior to the Reorganisation, Mr. Lam held the entire beneficial interest in Reach New through his children, namely Mr. Gabi Lam, Mr. Jeffrey Lam and Ms. Man Yee Lam as his nominees for his family arrangement purposes. As part of the Reorganisation, such trust arrangements were terminated on 10 December 2015, and Mr. Lam then became the sole legal and beneficial owner of Reach New.

On 20 September 2016, as part of the Reorganisation, Smart Trend acquired the entire equity interest in STL Apparel Accessories from Reach New. Upon completion of the registration of the equity transfer by the Administration for Industry and Commerce of Huizhou on 30 November 2016, STL Apparel Accessories became wholly owned by Smart Trend.

### **REORGANISATION**

Our Group underwent the Reorganisation in preparation for the Listing, which involved the following steps:

#### **Termination of trust arrangement**

Immediately before the Reorganisation, Mr. Lam beneficially owned the entire issued share capital of Reach New through his children, namely Mr. Gabi Lam, Mr. Jeffrey Lam and Ms. Man Yee Lam, under the following trust arrangements:

- (a) pursuant to a declaration of trust executed by Mr. Gabi Lam as trustee and Mr. Lam as beneficiary dated 25 August 2010, Mr. Gabi Lam held 4,000 ordinary shares in Reach New on trust for Mr. Lam;
- (b) pursuant to a declaration of trust executed by Mr. Jeffrey Lam as trustee and Mr. Lam as beneficiary dated 25 August 2010, Mr. Jeffrey Lam held 3,000 ordinary shares in Reach New on trust for Mr. Lam; and
- (c) pursuant to a declaration of trust executed by Ms. Man Yee Lam as trustee and Mr. Lam as beneficiary dated 4 December 2006, Ms. Man Yee Lam held 3,000 ordinary shares in Reach New on trust for Mr. Lam.

On 10 December 2015, each of Mr. Gabi Lam, Mr. Jeffrey Lam and Ms. Man Yee Lam executed an instrument of transfer in favour of Mr. Lam, pursuant to which each of them transfer their respective shares in Reach New to Mr. Lam, thereby terminating the above trust arrangements. The entire issued share capital of Reach New then became legally and beneficially owned by Mr. Lam.

## **HISTORY, DEVELOPMENT AND REORGANISATION**

### **Incorporation of Neo Concept**

On 1 December 2015, Neo Concept was incorporated in BVI with limited liability. It is authorised to issue a maximum of 50,000 ordinary shares of a single class with a par value of US\$1 each. On the date of its incorporation, Neo Concept allotted and issued one subscriber share with a par value of US\$1 as fully paid to Mr. Lam and the entire issued share capital of Neo Concept became wholly owned by Mr. Lam.

### **Incorporation of our Company**

On 22 January 2016, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. As at the date of its incorporation, it had an authorised share capital of HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each.

On the date of its incorporation, our Company allotted and issued one subscriber Share as fully paid to a nominee subscriber. On the same date, the nominee subscriber as transferor executed an instrument of transfer in favour of Neo Concept as transferee, pursuant to which the nominee subscriber transferred the one Share, representing the entire issued share capital of our Company, to Neo Concept for a consideration of HK\$0.01. Such transaction was properly and legally completed and settled.

On 22 January 2016, our Company further allotted and issued 99 Shares as fully paid to Neo Concept. The entire issued share capital of our Company then became wholly owned by Neo Concept.

### **Incorporation of New Forest**

On 1 December 2015, New Forest was incorporated in BVI with limited liability. It is authorised to issue a maximum of 50,000 ordinary shares of a single class with a par value of US\$1 each. On 23 January 2016, New Forest allotted and issued one subscriber share with a par value of US\$1 as fully paid to our Company. The entire issued share capital of New Forest then became wholly owned by our Company.

### **Incorporation of Smart Trend**

On 15 April 2016, Smart Trend was incorporated in Hong Kong with limited liability. On the date of its incorporation, Smart Trend allotted and issued one founder member's share for a total consideration of HK\$1 as fully paid to New Forest. The entire issued share capital of Smart Trend then became wholly owned by New Forest.

### **Acquisition of STL Garment Accessories and STL Apparel Accessories by Smart Trend from Reach New**

Immediately before the Reorganisation, Reach New legally and beneficially owned the equity interest in STL Garment Accessories and STL Apparel Accessories.

On 20 September 2016, Reach New as transferor and Smart Trend as transferee entered into equity transfer agreements, pursuant to which Smart Trend acquired the entire equity interests in STL Garment Accessories and STL Apparel Accessories for considerations of US\$1,050,000 and US\$1,000,000, respectively, which were settled by Neo Concept allotting and issuing 95 and four ordinary shares, respectively, credited as fully paid, to Mr. Lam at the direction of Reach New.

## HISTORY, DEVELOPMENT AND REORGANISATION

Upon completion of the registration of the above equity transfers by the Administration for Industry and Commerce of Huizhou on 30 November 2016, STL Garment Accessories and STL Apparel Accessories became wholly owned subsidiaries of Smart Trend.

### PRC REGULATORY ISSUES RELATING TO THE REORGANISATION AND THE LISTING

As advised by our PRC Legal Advisers, since our Company was incorporated out of China and the shareholder and ultimate beneficial owner of our Company are not PRC domestic persons, the Provisions on Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) are not applicable to the Reorganisation and the Listing is not subject to the approval from any PRC securities regulatory bodies.

In addition, as advised by our PRC Legal Advisers, since our Company was incorporated out of China and the shareholder and ultimate beneficial owner of our Company are not PRC domestic persons, holders of PRC identity documents nor individuals who reside in the PRC habitually for the purpose of economic benefit, Mr. Lam is not subject to the registration requirements under the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) promulgated by the State Administrative of Foreign Exchange of the PRC on 4 July 2014.

Our PRC Legal Advisers further confirmed that all necessary approvals, permits and licences required under the PRC laws and regulations in connection with the Reorganisation have been obtained, and the Reorganisation has complied with all applicable laws and regulations of the PRC.

### COMPANIES EXCLUDED FROM OUR GROUP DURING THE REORGANISATION

Prior to the Reorganisation, the entire equity interests of STL Garment Accessories and STL Apparel Accessories were held by Reach New, which is an investment holding company. Other than STL Garment Accessories and STL Apparel Accessories, Reach New held the majority interest in (1) a Hong Kong company namely Best Sources Development Limited (達資發展有限公司) (“**Best Sources**”), which principally engaged in the trading of sweaters; and (2) a PRC company namely Tai Neng Jian Bio-tech (Huizhou) Company Limited\* (肽能健生物科技(惠州)有限公司) (“**Tai Neng Jian**”), which was established with an intention to engage in the development of biochemical products (Reach New, Best Sources and Tai Neng Jian are collectively referred to as the “**Excluded Companies**”). Tai Neng Jian was dormant and was deregistered on 9 August 2016.

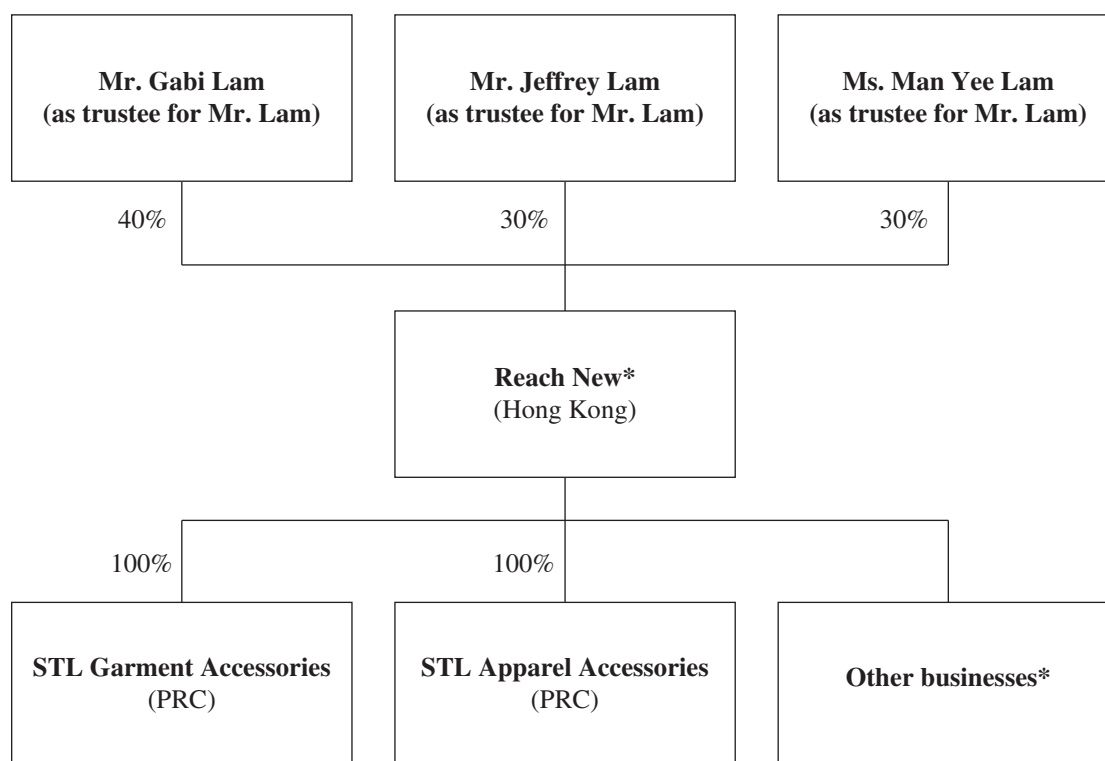
Mr. Lam holds the entire issued share capital of Reach New. Best Sources is owned as to 60% by Reach New and 40% by D&F Investments Limited, a company incorporated in the BVI with limited liability. D&F Investments Limited is owned as to 50% by Mr. Huang and 50% by Mr. Huang Qingxi, who are both our connected persons. Before the deregistration of Tai Neng Jian, Reach New owned 60% of the equity interest of Tai Neng Jian while the remaining 40% equity interest were owned by Huizhou Tai Neng Agricultural Technology Company Limited\* (惠州市肽能農業科技有限公司) (“**Tai Neng Agricultural Technology**”). To the best knowledge and information of the Directors after making reasonable enquiries, Tai Neng Agricultural Technology and its ultimate beneficial owners are independent third parties.

## HISTORY, DEVELOPMENT AND REORGANISATION

As (1) our Group has been positioned to serve as an established labelling solution provider and a one-stop garment accessories manufacturer and supplier based in the PRC, (2) the businesses of the Excluded Companies are not related to our Group’s principal business and are unlikely to compete with our Group, (3) there was no transaction between our Group and any of the Excluded Companies during the Track Record Period and up to the Latest Practicable Date, and (4) taking into account that the time and costs involved in excluding all the Excluded Companies from our Group are expected to be less than those involved in transferring the interests in Best Sources and Tai Neng Jian held by Reach New out from our Group as the latter would involve negotiation with the other shareholders of Best Sources and Tai Neng Jian, we decided to exclude all the Excluded Companies from our Group in the Reorganisation.

Mr. Lam, being the sole shareholder of Reach New, confirmed and the Sole Sponsor, based on its due diligence work done, concurred that the Excluded Companies were not involved in any material non-compliant incidents, claims, litigation or legal proceedings (whether actual or threatened) during the Track Record Period and up to the Latest Practicable Date.

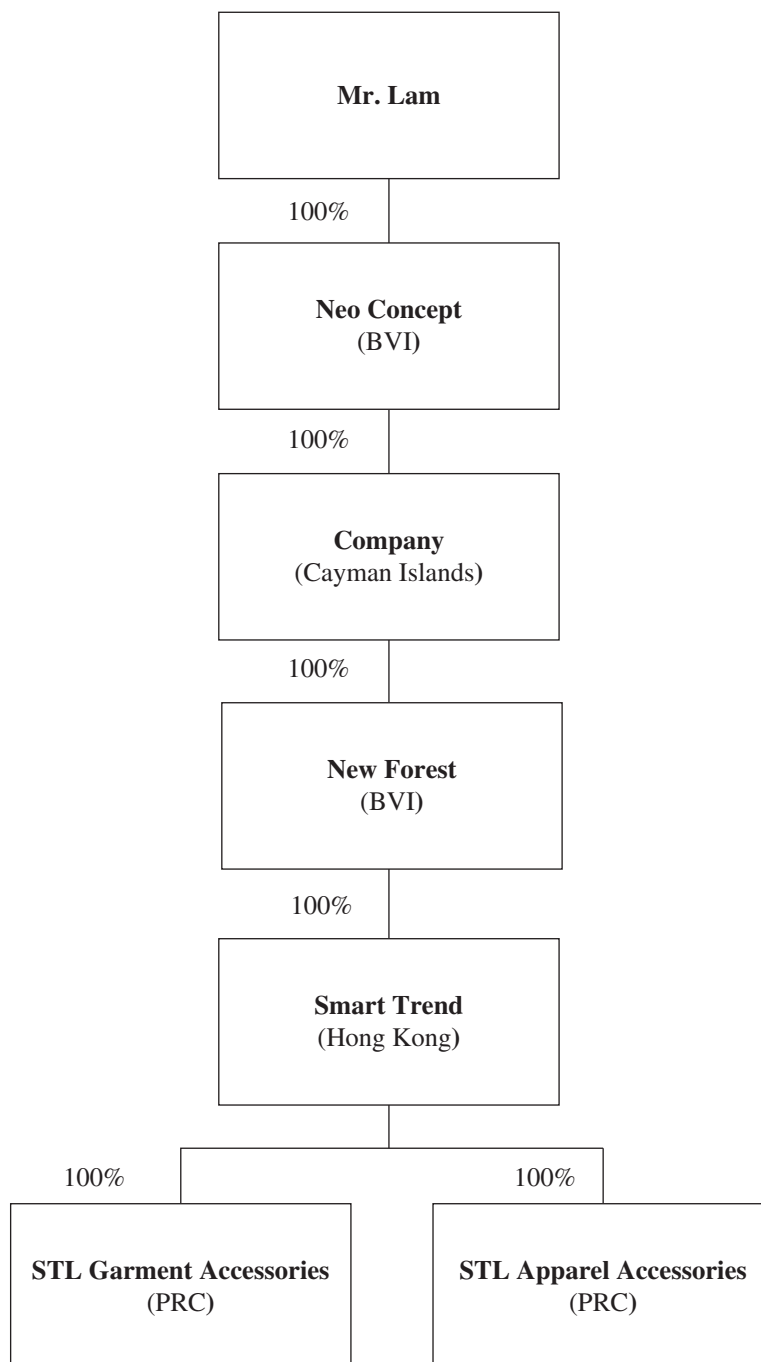
The following chart sets forth our Group’s shareholding and corporate structure immediately before the Reorganisation:



*Note\**: Other than STL Garment Accessories and STL Apparel Accessories, Reach New held interests in other businesses. For details, please refer to the paragraph headed “Companies excluded from our Group during the Reorganisation” above.

## HISTORY, DEVELOPMENT AND REORGANISATION

The following chart sets forth our Group's shareholding and corporate structure of immediately after the Reorganisation but before the Share Offer and the Capitalisation Issue:

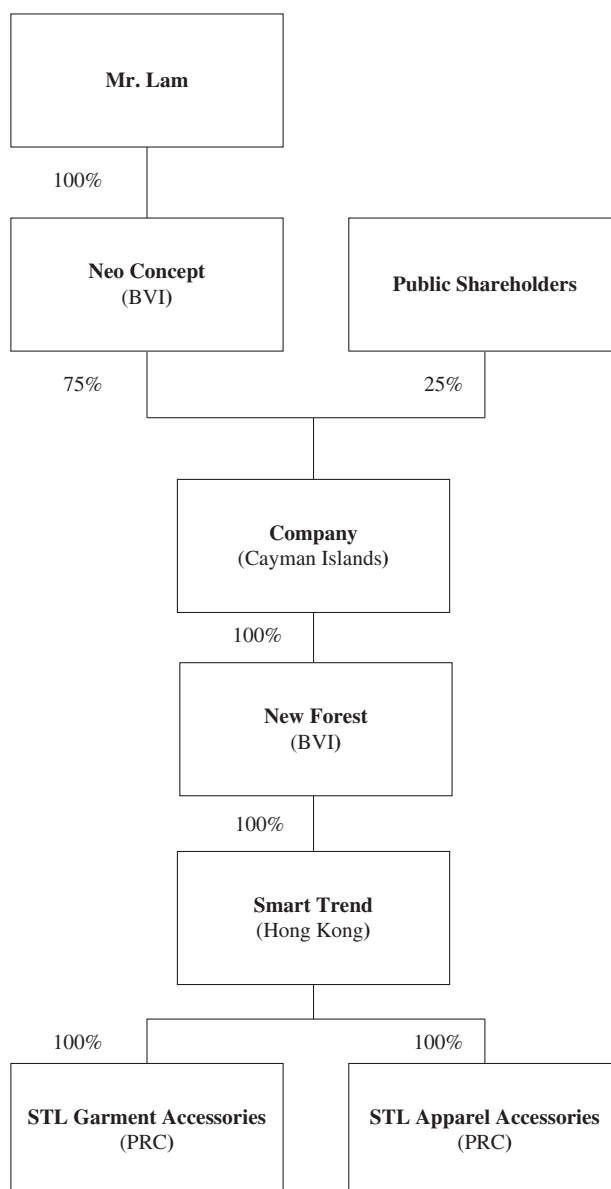


# HISTORY, DEVELOPMENT AND REORGANISATION

## Capitalisation Issue

Conditional upon the crediting of our Company's share premium account as a result of the issue of the Offer Shares pursuant to the Listing, the Directors are authorised to capitalise an amount of HK\$5,999,999 standing to the credit of the share premium account of our Company by applying such sum towards to pay up in full at par a total of 599,999,900 Shares for allotment and issue, immediately prior to the Share Offer, to Neo Concept so that the number of Shares so allotted and issued, when aggregated with the number of Shares already owned by it, will constitute 75% of the issued share capital of our Company.

The following chart sets forth our Group's shareholding and corporate structure immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme):





## BUSINESS

### OVERVIEW

We are an established labelling solution provider and a one-stop garment accessories manufacturer and supplier based in the PRC. Our products can be categorised into three main types being (i) printed products (e.g. hangtags, price tags and stickers), (ii) woven labels (e.g. woven brand labels, woven size labels and badges) and (iii) printed labels (e.g. printed brand labels, printed size labels and care content labels). We also source and sell other garment accessories, such as tapes, string locks, leather badge, buttons and metal products to our customers in the PRC.

For FY2015 and FY2016, we generated total revenue of approximately RMB95.6 million and RMB105.2 million, respectively, while our net profit amounted to approximately RMB6.1 million and RMB9.6 million, respectively. A breakdown on revenue of our Group by product types for FY2015 and FY2016 is summarised as below:

Product types	FY2015		FY2016	
	RMB'000	%	RMB'000	%
Printed products	49,828	52.1	51,400	48.9
Woven labels	28,428	29.7	28,395	27.0
Printed labels	13,664	14.3	19,741	18.8
Others <sup>(Note)</sup>	<u>3,689</u>	<u>3.9</u>	<u>5,663</u>	<u>5.3</u>
<b>Total</b>	<b><u>95,609</u></b>	<b><u>100.0</u></b>	<b><u>105,199</u></b>	<b><u>100.0</u></b>

*Note:* Others include tapes, string locks, leather badge, buttons and metal products.

During the Track Record Period, we have served over 1,100 customers; and served over seven major garment brand companies and two sourcing companies contributing over 85% of our total revenue, which covered not less than 11 overseas brands, 11 PRC brands and four PRC and Hong Kong brands. Our customers comprise of (i) the garment brand companies, (ii) sourcing companies each designated by a garment brand company and (iii) garment manufacturers in the PRC. Garment brand companies and sourcing companies would either place orders directly to selected suppliers like us or instruct the garment manufacturers to do so; therefore, our Directors believe that it is important for us to become a selected supplier of the garment brand companies or their designated sourcing companies in order to secure the orders. Being a selected supplier of these garment brand companies and sourcing companies, we manufacture our products and source other garment accessories according to the designs and specifications of the garment brand companies or sourcing companies and sell our products to our customers ultimately to be use as garment accessories such as labels or tags for finished garments.

## BUSINESS

A breakdown on revenue of our Group by three customer types based on the amounts of our sales to each customer type who placed orders to us directly for FY2015 and FY2016 is summarised as below:

<b>Customer types</b>	<b>FY2015</b>		<b>FY2016</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Garment brand companies	1,462	1.5	4,454	4.2
Sourcing companies each designated by a garment brand company <i>(Note 1)</i>	14,515	15.2	15,207	14.5
Garment manufacturers <i>(Note 2)</i>	79,632	83.3	85,538	81.3
<b>Total</b>	95,609	100.0	105,199	100.0

*Note 1:* To the best knowledge of our Directors, none of these garment brand companies or their garment manufacturers placed order directly with us.

*Note 2:* Some garment manufacturers may have their own brands but to the best knowledge of our Directors, they perform manufacturing function. The revenue derived from such garment manufacturers amounted to approximately RMB1.5 million and RMB1.7 million for FY2015 and FY2016, respectively.

Our Directors believe that our business relationship with the garment brand companies and their designated sourcing companies is a key factor to our success in this industry, given that either garment brand company or sourcing company is the ultimate decision maker of our engagement under our business model. Our Group directly deals with some garment brand companies; while for some garment brand companies which source garment accessories through sourcing companies, we deal with those sourcing companies directly without active involvement of their respective garment brand companies. To the best knowledge of our Directors, as a measure of quality control, garment brand companies and sourcing companies placed some orders with us directly in order to monitor the quality of our products, and in other instances through their designated garment manufactures. The table below is a breakdown of our revenue during the Track Record Period by the seven major brand companies and two sourcing

## BUSINESS

companies that selected our Group as the supplier of garment accessories; the figures set out in the table represent the aggregate sales amount to each of them who placed orders to us either directly or through garment manufacturers:

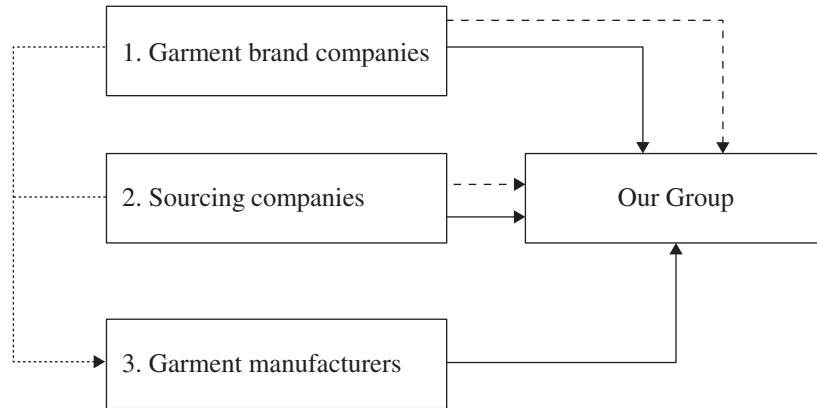
Garment brand companies/ sourcing companies	<i>Note</i>	FY2015		FY2016	
		<i>RMB'000</i>	%	<i>RMB'000</i>	%
Customer A	(1) and (2)	28,348	29.6	27,299	26.0
Jeanwest Apparels (China) Company Limited	(3)	27,034	28.3	23,595	22.4
Company — 4	(3)	11,418	12.0	13,125	12.5
Company — 2	(3)	15,975	16.7	10,628	10.1
Company — 1	(1) and (3)	1,358	1.4	6,754	6.4
Customer F	(4)	—	—	2,738	2.6
Company — 5	(5)	4,151	4.3	2,405	2.3
Customer I	(5)	184	0.2	1,733	1.6
Company — 3	(3)	1,323	1.4	1,600	1.5
Others		5,818	6.1	15,322	14.6
<b>Total</b>		95,609	100.0	105,199	100.0

*Notes:*

1. It refers to a sourcing company acting solely on behalf of its respective garment brand company amongst the transactions with our Group.
2. The aggregate sales amount is calculated by summing up the revenue generated from Customer A directly, which amounted to RMB14.5 million for FY2015 and RMB15.2 million for FY2016, and Customer A's indirect order through its designated garment manufacturers. To the best knowledge of our Directors, as a measure of quality control, this sourcing company placed some orders with us directly in order to monitor the quality of our products, and in other instances through designated garment manufacturers. For details of the order arrangements, please refer to the section headed "Financial Information — Period to Period Comparison of Results of Operations — Distribution and selling expenses" in this prospectus.
3. The aggregate sales amount is calculated by summing up the sales to the designated garment manufacturers.
4. The sales amount represents the sales to the garment brand company directly.
5. The aggregate sales amount is calculated by summing up the sales to both the garment brand company and its designated garment manufacturers. To the best knowledge of our Directors, as a measure of quality control, these garment brand companies placed some orders with us directly in order to monitor the quality of our products, and in other instances through designated garment manufacturers.

## BUSINESS

The diagram below shows our typical business model as well as the business relationship among the parties:



Notes:

- > Placing orders
- - - -> Providing design and specification of products
- .....> Providing list of selected suppliers

Apart from manufacturing and sourcing various garment accessories, our Group also provides various value-added services to our customers. Starting from the pre-production stage, our customers can utilise our online system or through our sales and marketing department to place orders with us. Our Group then provides guidance and assistance to our customers on the technical feasibility of design and material usage of the products. During the production stage, through such system our Group also verifies and protects intellectual property of brands such as trademarks and ensures the accuracy of the variable data such as prices and care content under quality control process. Our Group also stores these data and provides a back-up source of information to our customers. After the production stage, our Group utilises such online system to enable our customers to track the delivery status of the products ordered.

According to the F&S Report, there are about more than thousands of garment accessories manufacturers who focus on the business of printed products, woven labels and printed labels in the PRC. Accordingly, as of 2016, the PRC garment accessories industry was relatively fragmented, top five players only occupied about 9.2% of the total market in terms of sales revenue. The sales revenue of our Group in 2016 took a market share of 0.9% and ranked the seventh place in the PRC garment accessories industry. With a proven track record of over 15 years as an established labelling solution provider and a one-stop garment accessories manufacturer and the strong growth potentials of the garment accessories industry in the PRC, our Directors believe that we are well-positioned to capture the growing demand for garment accessories industry in the PRC.

**COMPETITIVE STRENGTHS**

We believe our success and our potential for further growth are attributable to our competitive strengths as set out below:

**We have established long-standing working relationships with the garment brand companies and the designated sourcing companies.**

We have over 15 years of operating history in the manufacturing and sale of garment accessories. With years of continuous efforts to offer quality printed products, we have established our reputation in the industry. We sell our products to the garment brand companies, sourcing companies each designated by a garment brand company and garment manufacturers. We provide value-added services to our customers, in particular the garment brand companies and sourcing companies, including the provision of guidance and assistance on the technical feasibility of design and material usage of the products, protection of intellectual property such as trademarks and price data, as well as the management of such data after the delivery of products.

During the Track Record Period, we had over 1,100 customers; and served over seven major garment brand companies and two sourcing companies contributing over 85% of our total revenue, which covered not less than 11 overseas brands, 11 PRC brands and four PRC and Hong Kong brands. We have more than 10 years of working relationships with most of these major garment brand companies and sourcing companies. The table below sets out the background of these seven major garment brand companies and the two sourcing companies:

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Garment brand companies/sourcing companies	Note	Main business activities*	Market position of the relevant brands*	Approximate market share of the brands in its respective competitive landscape in the PRC*(Note 7)	Approximately market share of the brands in its respective competitive landscape in the world*	Years of working relationship with our Group
Customer A	(1) and (2)	A Shanghai sourcing company of an international fashion company headquartered in Denmark with a range of 20 individual fashion brands, with products available in branded chain stores, multi-brand and in department stores across Europe, The Middle East, North America, Latin America, Australia, India and the PRC. These brands cover fast fashion men's and women's wear.	A famous Danish fast fashion men's and women's garment brand	1.1%(Note 3)	0.42%	6
Company-1	(2)	An independent sourcing company based in Hong Kong which sources products for a luxury fashion brand headquartered in New York, U.S. This brand sells men's and women's and ready-to-wear, accessories, jewellery and fragrance	A well-known U.S affordable luxury brand	0.1%(Note 3)	0.11%	10
Jeanswest Apparels (China) Company Limited 真維斯服飾(中國)有限公司	(2)	A garment brand company headquartered in the PRC with brands and outlets in the PRC, Hong Kong and Australia, owned by a company listed on the Main Board of the Stock Exchange. Their major products include jeans, casual men's wear, women's wear and maternity clothes	A leading fast fashion men's and women's garment brand in the PRC	0.3%(Note 3)	n.a.(Note 8)	13

## BUSINESS

Garment brand companies/sourcing companies	Note	Main business activities*	Market position of the relevant brands*	Approximate market share of the brands in its respective competitive landscape in the PRC*(Note 7)	Approximately market share of the brands in its respective competitive landscape in the world*	Years of working relationship with our Group
Company-2	(2)	A casual wear garment brand company headquartered in Hong Kong with over 2,800 retail outlets in the PRC and Hong Kong, owned by a company listed on Main Board of the Stock Exchange. Their major products include men's wear, women's wear and children's wear	A famous fast fashion men's and women's garment brand in Hong Kong and the PRC	0.4%(Note 3)	n.a. (Note 8)	13
Customer F	(1)	A garment brand company focuses on fast fashion with retail outlets headquartered in the PRC. Their major products include mass market men's wear, shoes and accessories	A leading fast fashion men's garment brand in the PRC	0.2%(Note 3)	n.a. (Note 8)	1
Customer I	(1) and (2)	A garment brand company headquartered in the PRC, which is a retailer of children's wear	A famous local children's garment brand targeting babies and kids aged 0-4 in the PRC	1.2%(Note 4)	n.a. (Note 8)	11
Company-3	(2)	A fashion garment brand company headquartered in France, with retail outlets mainly in Europe, Africa and the Middle East	A fast fashion men's garment brand targeting men in the age of 18 to 40	n.a. (Note 6)	0.07%	6

## BUSINESS

Garment brand companies/sourcing companies	Note	Main business activities*	Market position of the relevant brands*	Approximate market share of the brands in its respective competitive landscape in the PRC <sup>*(Note 7)</sup>	Approximately market share of the brands in its respective competitive landscape in the world <sup>*</sup>	Years of working relationship with our Group
Company-4	(2)	A garment brand company headquartered in the PRC which owns five independent brands. Their major products are contemporary women's wear. It is the official retailer of a British and an Italian fashion brand in the PRC specialising in men's and women's clothing and women's denim clothing respectively. It has around 3,000 retail outlets	A leading fast fashion men's and women's garment brand in the PRC	0.8% <sup>(Note 3)</sup>	n.a. <sup>(Note 8)</sup>	13
Company-5	(1) and (2)	A garment brand company headquartered in Beijing, the PRC which is listed on the Shenzhen Stock Exchange. As of the end of 2014, it has 1,700 retail outlets in the PRC, specialising in the sales of outdoor sports garments, including jackets, boots, and hiking accessories	A famous outdoor sports garment brand in the PRC	2.1% <sup>(Note 5)</sup>	n.a. <sup>(Note 8)</sup>	4

\* Source: F&S Report.



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*Note 1:* The garment brand company or sourcing company place orders with us directly, being our customers.

*Note 2:* The garment brand company or sourcing company instructs garment manufacturer to place orders with us.

*Note 3:* Market share is calculated based on the retail sales in men and women's garment market in the PRC in 2016 according to the F&S Report.

*Note 4:* Market share is calculated based on the retail sales in children's garment market in the PRC in 2016 according to the F&S Report.

*Note 5:* Market share is calculated based on the retail sales in sportswear market in the PRC in 2016 according to the F&S Report.

*Note 6:* Company-3 has strong presence in Europe, Africa, and the Middle East. However, sales of Company-3 in the PRC market is not significant enough for statistic purpose.

*Note 7:* According to F&S Report, PRC garment industry is very fragmented with total market size more than RMB2,000 billion. Thus, each garment brand company (even famous and leading brands) accounted for relatively small market share.

*Note 8:* The garment brand is mainly focused in the PRC market and therefore no market share in the world is established.

To the best knowledge of our Directors, (i) the above garment brand companies and sourcing companies are not controlled by the same group of shareholders; (ii) none of the brands applied on our products was owned by more than one garment brand company; and (iii) during the Track Record Period and up to the Latest Practicable Date, each of the brands applied on our products was provided to us only by one garment brand company or sourcing company. Also, our Group has not heavily relied on any of our customers.

Our Directors believe that our working relationships with the garment brand companies and the designated sourcing companies have shown their recognition of the quality of our products and are a result of our years of cooperation with them. We consider that this recognition and reputation is a key factor leading to our success in the industry. For details, please refer to the section headed "Industry overview — Entry barrier of garment accessories market in the PRC — Customer bases" in this prospectus.

### **We supply a wide range of garment accessories.**

We classify the products we provide into three types, being (i) printed products (e.g. hangtags, price tags and stickers), (ii) woven labels (e.g. woven brand labels, woven size labels and badges), and (iii) printed labels (e.g. printed brand labels, printed size labels and care content labels). In addition, we also source and supply various garment accessories that we do not manufacture ourselves such as tapes, hanging tablets, string locks, leather badges, buttons and metal products, etc. The products we offer therefore cover a wide range of garment accessories and are able to satisfy various needs of our customers. From the view of better management in terms of cost and time, our customers can source all the garment accessories that they need through our Group rather than through various separate suppliers. Our Directors believe that with our supply of a wide range of garment accessories, our customers can reduce their chance of confidential information leakage by reducing their frequency of providing their designs and specifications to

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other suppliers. Our Directors also believe that these benefits of cost effectiveness, convenience and better brand management would be the main reasons that our customers work closely with our Group as their selected suppliers over other garment accessories provider.

**We provide value-added services ranging from providing guidance on design and data accuracy, intellectual property protection to data management and logistic management.**

Apart from manufacturing and sourcing various garment accessories, our Group also provides various value-added services to our customers. These services cover three main areas from design and data, intellectual property protection to data and logistic management. To facilitate the provision of these services, we have established a comprehensive online system together with quality control measures.

Starting from the pre-production stage, our customers can utilise such online system or through our sales and marketing department to place orders with us. Our Group can track the specifications and needs of products required by our customers and receive our customers' orders. Our Group also provides guidance and assistance to our customers on technical feasibility of the design and material usage of the products under different brands.

In respect of brand protection and data management, during the production stage, our Group verifies and protects intellectual property of brands such as trademark and ensures the accuracy of the variable data such as prices and care content through the online system by our quality control teams. For example, in the event where the design of products involves multi-language, our Group ensures the translation's accuracy and provide assistance to our customers by utilising our online system which is equipped with a multi-language translation function for 19 languages.

Our Group also stores these contents in support of our customers and these contents can be retrieved upon our customers' requests. It serves as a back-up source of information to them. After the production stage, our Group utilises such online system to enable our customers to track the delivery status of the products ordered.

By providing these value-added services to our customers, it ensures the design and data accuracy of the final products for our customers in particular for the garment brand companies. Our Directors believe that the provision of such value-added services is one of the main reasons our customers remain with our Group as their suppliers for long terms.

**We have established an experienced and professional management team.**

Mr. Lam, our founder, chairman and non-executive Director of our Group and one of our Controlling Shareholders, has over 24 years of experience in the garment accessories manufacturing industry and has been in a key management and leadership role in the development of our Group. With his experience in the whole value chain of the garment industry, from sourcing, production, branding to sales, Mr. Lam is able to understand the needs of our customers.

Our two executive Directors, Mr. Gabi Lam and Mr. Jeffery Lam, have established experience in garment accessories manufacturing industry. Mr. Gabi Lam obtained a bachelor's degree of business in management in 2004 and obtained a master's degree of business in entrepreneurship in December 2005. He joined our Group in March 2006 and had gradually taken

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up the management of our Group from Mr. Lam. Mr. Gabi Lam has over 10 years of experience in the garment accessories manufacturing industry. Mr. Jeffrey Lam graduated in June 2012 with a bachelor's degree of science with honours in accounting and finance. He has over four years of experience in the garment accessories manufacturing industry. He joined STL Garment Accessories in August 2012 as general manager assistant.

Our Directors believe that our Group's success is attributable to, among other things, the contribution of each of the executive Directors and senior management. For details of their experience, please refer to the sections headed "Directors and senior management — Executive Directors" and "Directors and senior management — Senior management" in this prospectus. With their experience and expertise, our Directors believe that our senior management will be able to drive continuous growth of our Group. Our Directors are of the view that our Group has a low turnover rate in senior management and production team. The stability enables the team to develop in-depth industry knowledge for efficient operations of our Group's business.

### BUSINESS STRATEGIES AND FUTURE PLANS

Our overall business objective is to strengthen the position as an established labelling solution provider and a one-stop garment accessories manufacturer and supplier in the PRC. We intend to achieve these objectives by implementing the following strategies:

#### **Upgrading our production facilities and digital printing technology**

For FY2016, the utilisation rates of our production lines of printed products, woven labels and printed labels were approximately 93.0%, 35.9% and 76.7%, respectively. According to the F&S Report, due to the increasing trend of fast fashion and internet retail in the recent few years, garment brand companies develop new products every four weeks on average, thus the production cycle of various products in the garment industry is gradually shortened. In order to meet the expected increasing demand of our customers and to increase our production efficiency, our Group plans to continue upgrading our existing production facilities for printed products (the "**Printing production line**") by acquiring two four-colour offset printing machines with inline UV coating capabilities and one colour digital printing machine.

We expect that the two new four-colour offset printing machines will be in operation in the first half of the year 2018 and the first half of the year 2019, respectively. Our Directors advised that it is expected that the new four-colour offset printing machines will enhance production efficiency and cost effectiveness because: (i) it can reduce the number of pass required for printing multi-colour products, which can save production time and enable us to complete orders for delivery to our customers faster and may attract more orders to our Group; and (ii) reducing the number of pass in printing also means that we can save manpower, time and cost for washing, changing printing plates, colour tone adjustments and re-registration of printing images and drying of ink. The production speed of multi-colour printing increases with a printing machine with more printing units. As many of our Group's hangtags and labels are for quality products which require various colour effects, our Directors consider that our plan to acquire two four-colour offset printing machines will enable us to print the products in accordance with complicated specifications efficiently and in good quality.

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As at the Latest Practicable Date, we had three digital printing machines which can only print in black and white. We expect that the new colour digital printing machine will be in operation in the first half of the year of 2018. With the new colour digital printing machine which can print in multiple colours, we are able to enhance the quality of our products involving variable data and also diversify our range of products by providing coloured printed products.

The acquisition of machines will enhance the efficiency, design and quantity of product outputs. We believe such investment will expand our production capacity and further enhance our profitability. For details of our existing production capacity and utilisation rate, please refer to the paragraph headed “Production capacity” in this section. We plan to allocate approximately 45.2% (or approximately HK\$17.0 million) of the net proceeds (based on the Offer Price of HK\$0.30 per Offer Share, being the midpoint of the indicative Offer Price range of HK\$0.26 to HK\$0.34 per Offer Share) from the Share Offer.

### **Developing the capability of applying RFID technology to our products**

According to the F&S Report, over 80% of the U.S. and Western Europe garment factories of global garment brands applied the RFID technology; it has been widely used in the garment manufacturing industry to track various products in a garment factory and during the logistic process, with major application currently in the U.S. and Western Europe garment factories of global garment brands. When RFID tags are hanged on garment products, retailers can utilise the RFID tags for stock control, tracking the movement and location of products and even collecting consumer behaviours related data. Even though it may not yet be widely used in the PRC garment industry, according to our Directors, our customers have from time to time enquired the capability of our Group on this technology.

In recent years, the application of RFID technology in the PRC garment accessories market enjoyed a rapid growth. The penetration rate of RFID technology in the PRC garment accessories market increased from approximately 9.5% in 2011 to approximately 20.0% in 2016, with a CAGR of 16.1%. In the future, the penetration rate of RFID technology in the PRC garment accessories market is expected to reach 29.5% in 2020, with a CAGR of 10.2% from 2016. During the Track Record Period, we had yet to record any sales and we have been undergoing a trial process for such application. To cope with the growing trend of this technological advancement, we are required to acquire machines with RFID technology and hence upgrade our existing production facilities. Given that our customers have from time to time enquired our capability on the RFID technology, which is an indicator of demand, our Directors believe that with the adoption of the above RFID technology, we can cater for our customers’ demand by offering RFID tags to our existing customers and further expand our customer base to cover potential customers which may order RFID tags. We intend to allocate approximately 8.0% (or approximately HK\$3.0 million) of the net proceeds (based on the Offer Price of HK\$0.30 per Offer Share, being the midpoint of the indicative Offer Price range of HK\$0.26 to HK\$0.34 per Offer Share) from the Share Offer to set up two RFID production lines.

**Enhancing our heat transfer printing production facilities**

According to the F&S Report, heat transfer printing is a digital printing process in which material is applied to paper (or some other material) by melting a coating of ribbon so that it stays glued to the material on which the print is applied. It is now becoming the primary element in garment manufacturing operations. Each fabric and printing material has its own properties and appropriate mixing of inks differs for different types of fabric contents and printing materials. Hence, the heat transfer printing production facilities need continuous development and to be fine-tuned to satisfy customers' needs and requirements. With the adoption of more enhanced heat transfer printing, we can improve wearability and durability of products so as to satisfy our customers' needs. The heat transfer printing technology can be regarded as relatively mature technology for most garment accessories manufacturers. In 2016, the penetration rate of heat transfer printing technology in the PRC garment accessories industry was around 70%. Our Directors thus have decided to further enhance our heat transfer printing production facilities.

During the Track Record Period, we engaged and solely relied upon subcontractors to produce heat transfer printing labels for our customers recorded with revenue of approximately RMB92,000 for FY2015 and RMB312,000 for FY2016, represented an increase of approximately 2.4 times. We purchased one specialised heat transfer printing machine in early June of 2017. As at the Latest Practicable Date, we have not yet commenced the trial production of the specialised heat transfer printing machine, which is expected to be commenced in mid-July of 2017 and our existing printing machines may be able to perform limited heat transfer functions. We may continue to outsource the production of these products to our subcontractors, and therefore we may have to incur more time and resources in communicating with them about such product requirements and specifications of our new customers and/or different requirements of our existing customers. Further, there is no assurance that our subcontractors would possess the appropriate know-how to meet our requirements in such circumstances. Moreover, the subcontractors' production capacity and/or schedule may not always fit our customers' demands.

Our Directors consider that the enhancement of our heat transfer printing production facilities will diversify our own product range by the introduction of design and production with the use of heat transfer printing moulds and products for garment manufacturers to be applied on their garments instead of printing directly on the garments in our factories. In addition, it can reduce our reliance on these subcontractors to produce heat transfer printing labels and have better cost and quality control. We intend to allocate approximately 16.0% (or approximately HK\$6.0 million) of net proceeds (based on the Offer Price of HK\$0.30 per Offer Share, being the midpoint of the indicative Offer Price range of HK\$0.26 to HK\$0.34 per Offer Share) from the Share Offer to set up two heat transfer printing production lines. After the implementation of such enhancement plan, our Directors believe that our Group will be capable to handle the heat transfer printing function by our own and we will cease to engage subcontractors to produce heat transfer printing labels.

Our Directors believe that with the enhancement of heat transfer printing production facilities, our business diversity and expansion plans can be enhanced in the short and medium term. We intend to allocate approximately 16.0% (or approximately HK\$6.0 million) of the net proceeds (based on the Offer Price of HK\$0.30 per Offer Share, being the midpoint of the indicative Offer Price range of HK\$0.26 to HK\$0.34 per Offer Share) from the Share Offer.

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### **Upgrading our information technology systems**

We have established an online system catering for the product design, brand protection and data management through tracking of orders online.

We have also implemented the ERP system, which applies to many aspects of our daily operations and management, including financial reporting, inventories and sales and management, manufacturing, and procurement. It enables and facilitates the integration and exchange of information among our different departments.

We intend to integrate our online system into a new ERP system to cover wider aspects in our daily operations and enable electronic data interchange and data direct linkage. With the integrated system, we can increase efficiency in our information exchange and improve operational management and ultimately increase customer satisfaction. After the system upgrade, we will need to provide staff training on the usage and system infrastructure of the system, as well as provide system maintenance and system development.

We intend to hire a ERP consultancy company in the PRC to advise on the integrated solution. We estimate that the aggregate costs and expenses for upgrading our ERP system will be approximately HK\$5.3 million which is planned to be financed by approximately 14.1% of the net proceeds (based on the Offer Price of HK\$0.30 per Offer Share, being the midpoint of the indicative Offer Price range of HK\$0.26 to HK\$0.34 per Share) from the Share Offer.




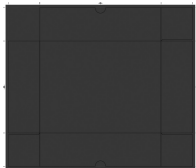
### **Expanding our sales and marketing department**

We will continue to maintain our current market penetration by our efforts in maintaining and further improving our customer relationship which can lead to increasing customers' satisfaction. Our Directors intend to strengthen our marketing strategies and personnel, and explore business opportunities through (i) increasing the product penetration and range with existing garment brand companies; (ii) acquiring new customers which are sourcing companies; and (iii) developing business relationship with other garment brand companies and sourcing companies in the PRC. To accomplish the above objectives, our Directors intend to hire three additional sales and marketing managers who are experienced in garment accessories industry with network of potential customers. We estimate that the aggregate costs and expenses for expanding our sales and marketing department will be approximately HK\$3.0 million which is planned to be financed by approximately 8.0% of the net proceeds (based on the Offer Price of HK\$0.30 per Offer Share, being the midpoint of the indicative Offer Price range of HK\$0.26 to HK\$0.34 per Share) from the Share Offer.

**OUR PRODUCTS**

Our products can be categorised into three main types being (i) printed products, (ii) woven labels and (iii) printed labels. Due to difference in nature of these products, we have established three major production lines to facilitate the manufacturing process. Depending on customers’ requirements, we typically produce printed products, woven labels and printed labels according to the designs and specifications approved by the garment brand companies and sourcing companies. Our products can be in various shape, size, colour, and can be used for a variety of purposes, such as promoting brand image and presenting product or company information.

Our key product descriptions and their pictures for illustrative purpose are set out below:

Key product	Picture	Description
<b>Category (I) — Printed products</b>		
Hangtags		Hangtags are paper tags which are attached to garments by strings or plastic swift tags.
Price tags		Barcodes or variable data codes are printed on price tags and can be read by reader machines.
Stickers		Stickers are labels which can be adhered on garments or hangtags to display size and prices.
Packaging materials		Packaging materials include paper bags and paper boxes.

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## Key product

## Picture

## Description

### Category (II) — Woven labels

Brand labels



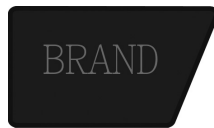
Brand labels are manufactured through weaving and sewed onto garments to display brand names.

Size labels



Size labels are manufactured through weaving and sewed onto garments to display sizes of garments.

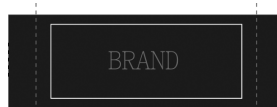
Badges



Badges are sewed to garments for decoration purpose.

### Category (III) — Printed labels

Brand labels



Brand labels are manufactured through printing and cutting and sewed onto garments to display brand names.

Size labels



Size labels are manufactured through printing and cutting and sewed onto garments to display sizes of garments.

Care content labels



Care content labels are printed on satin or polyester ribbon tapes and sewn onto garments to display instructions for proper care of garments.

In addition to manufacturing the products through our production lines, we also source and sell other garment accessories, such as tapes, hanging tablets, string locks, leather badges, buttons and metal products to our customers in the PRC.



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A breakdown on revenue, sales volume, and average selling price of our Group by product types for FY2015 and FY2016 is summarised as below:

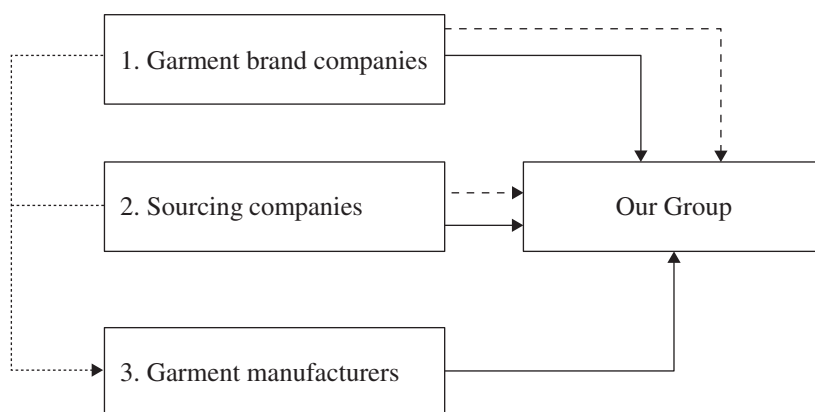
Product types	FY2015				FY2016			
	Revenue		Sales volume	Average selling price	Revenue		Sales volume	Average selling price
	<i>RMB'000</i>	<i>% thousands</i>	<i>Units in thousands</i>	<i>RMB</i>	<i>RMB'000</i>	<i>% thousands</i>	<i>Units in thousands</i>	<i>RMB</i>
Printed products	49,828	52.1	391,293	0.127	51,400	48.9	452,690	0.114
Woven labels	28,428	29.7	236,259	0.120	28,395	27.0	256,665	0.111
Printed labels	13,664	14.3	150,201	0.091	19,741	18.8	208,907	0.095
Others <sup>(Note)</sup>	<u>3,689</u>	<u>3.9</u>	N/A	N/A	<u>5,663</u>	<u>5.3</u>	N/A	N/A
<b>Total</b>	<u><u>95,609</u></u>	<u><u>100.0</u></u>			<u><u>105,199</u></u>	<u><u>100.0</u></u>		

*Note:* Others include tapes, hanging tablets, string locks, leather badges, buttons and metal products with different kind of measurement in units which cannot be aggregated.

Our Directors confirm that there was no material fluctuation on the price of our products during the Track Record Period.

### OUR BUSINESS MODEL

The diagram below shows our business model as well as the business relationship among the parties.



Notes:

- > Placing orders
- - - -> Providing design and specification of products
- .....> Providing list of selected suppliers

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In general, our customers are (i) the garment brand companies, (ii) sourcing companies each designated by a garment brand company and (iii) garment manufacturers. Garment brand companies are companies that own various trademarks, brand logos, commodity barcodes that carry the product's identity such as its country of origin, and various variable data such as price and care instructions while the sourcing companies usually act as agents to garment and garment accessories for the garment brand companies. According to the F&S Report, either the garment brand companies or the sourcing companies take the role of design of products and outsource the manufacturing process to garment manufacturers. In some cases, garment brand companies engage and designate sourcing companies to liaise with garment manufacturers and garment accessories manufacturers for supply of garments and garment accessories, respectively. In daily operation, the garment brand companies or the sourcing companies liaise with our Group to arrange procurement of garment accessories; while our customers, namely, the garment brand companies, the sourcing companies or the garment manufacturers, place orders with us. In order to ensure product quality, garment brand companies and sourcing companies often retain control on the selection of suppliers and therefore maintain a list of selected suppliers for raw materials (such as fabric, labels, other garment accessories and packaging materials) and subcontractors based on previous working relationship and price quotations.

When new garment products are launched, garment brand companies and sourcing companies will release material specifications to seek price quotations in terms of different ranges of quantity of products and product samples from the suppliers of various products such as raw materials, packaging materials for finished garments and labels (such as our Group). Garment brand companies and sourcing companies will then liaise the pricing with potential garment accessories manufacturers, select and determine their own lists of approved garment accessories manufacturers. After selection of garment accessories suppliers, garment brand companies and sourcing companies will inform our customers about the selected suppliers list(s). Upon receipt of confirmations from the garment brand companies and sourcing companies, our customers will place orders with our Group according to the needs of the garment brand companies. We then deliver our products to our customers. Products ordered by our customers from our Group are mainly for ultimate use as tags or labels for finished garments of garment brand companies.

### **Major arrangement between our Group and our customers**

We have not entered into long-term contracts with these customers. Our Directors believe that it is consistent with industry norm. There are no standardised commercial arrangements or agreements. The commercial arrangements between our Group and our customers depend on each purchase order taking into account factors such as type of products, quantities, business relationship, total manufacturing costs, payment history and our competitors' pricing level. Payments are settled in RMB mainly through bank transfer with credit terms ranging from 30 to 90 days. Our Group receives purchase orders from our customers being either (1) garment brand companies, (2) sourcing companies, or (3) garment manufacturers. Our Directors believe that while garment brand companies are companies that own various trademarks, brand logos, commodity barcodes and various variable data such as price and care instructions, they have their own sourcing procedure. Our Directors confirm that while garment brand companies can place orders with us directly or through their sourcing companies or garment manufacturers, the commercial arrangement and major terms between garment brand companies with their designated sourcing companies and garment manufacturers are outside the engagement with our Group and are not made known to us.

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As confirmed by F&S, the major arrangement between our Group and our customers is in line with the industry norm in the PRC garment accessories market.

A breakdown on revenue of our Group by three customer types based on the amounts of our direct sales to each customer type for FY2015 and FY2016 is summarised as below:

Customer types	FY2015		FY2016	
	RMB'000	%	RMB'000	%
Garment brand companies	1,462	1.5	4,454	4.2
Sourcing companies each designated by a garment brand company <i>(Note 1)</i>	14,515	15.2	15,207	14.5
Garment manufacturers <i>(Note 2)</i>	79,632	83.3	85,538	81.3
<b>Total</b>	95,609	100.0	105,199	100.0

*Note 1:* To the best knowledge of our Directors, none of these garment brand companies or their garment manufacturers placed order directly with us.

*Note 2:* Some garment manufacturers may have their own brands but to the best knowledge of our Directors, they perform manufacturing function. The revenue derived from such garment manufacturers amounted to approximately RMB1.5 million and RMB1.7 million for FY2015 and FY2016, respectively.

### Major arrangement between our Group and garment manufacturers

In most cases, garment manufacturers engage us and place purchase orders directly with us for our products. Based on the understanding of our Directors, garment brand companies and sourcing companies normally instruct garment manufacturers to produce the whole piece of garment. Upon receiving purchase orders from the garment brand companies and sourcing companies, garment manufacturers commence production of garment products and engage supplier(s), including supplier of label and garment accessories like our Group, selected and approved by garment brand companies or its sourcing companies. Garment brand companies or their sourcing companies provide data directly to our Group via electronic means when they seek samples and price quotations from our Group. Once the product specifications are agreed, they will confirm and authorise the production. Garment brand companies and/or sourcing companies will instruct garment manufacturers to place orders to us based on the agreed unit price for each type of products, design, other product specifications, as well as of the quantity of the finished garment products by which garment manufacturers are bound. Other major terms such as delivery timeline, quantity of the garment accessories required, logistics, etc. are negotiated between us and garment manufacturers, who normally would take into consideration the delivery timeline and other requirements as imposed by the garment brand companies and sourcing companies. Garment manufacturers do not involve in the process of price quotation, product design and development, and product approval. As long as garment manufacturers place orders to us based on the price, design and other product specifications as approved and instructed by the garment brand companies or sourcing companies, garment manufacturers can place orders to us according to their production schedule without seeking further instructions from garment brand companies and sourcing companies for each order.

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As confirmed by F&S, the major arrangement between our Group and garment manufacturers is in line with the industry norm in the PRC garment accessories market.

### **Major arrangement between our Group and garment brand companies or their sourcing companies**

Some garment brand companies engage and place orders with us directly, they provide product data, design and specification to us and seek samples and price quotations from our Group. Based the agreed price, quantity and specifications, our Group and garment brand companies will negotiate other major terms such as delivery timeline and logistics requirements. Such garment brand companies will lay down instructions regarding the timeline, quantity of the garment accessories required (if applicable), logistics, etc. directly.

Some garment brand companies delegate the procurement of garment accessories to sourcing companies or garment manufacturers that coordinate the manufacture of the whole garment product, which our products form part of it; and therefore they do not place purchase orders directly with us for our products. Sourcing company is authorised by garment brand company as its agent, to liaise with garment manufacturers and garment accessories manufacturers for supply of garment and garment accessories. On behalf of garment brand companies, sourcing companies provide product data, design and specification to us and seek samples and price quotations from our Group. Subject to the arrangement between garment brand companies and sourcing companies, after confirmation of product specifications and price with us, sourcing companies may engage and place orders with us directly as a direct customer or through garment manufacturers. If the sourcing companies place orders with us directly, they will also instruct us directly the delivery timeline, quantity of the garment accessories required, logistics, etc. after taking into consideration the delivery timeline and other requirements as imposed by the garment brand companies.

If garment brand companies or its designated sourcing companies do not place orders with us directly but through garment manufacturers, the major arrangements between our Group and the garment manufacturers are set out in the paragraph headed “Our business model — Major arrangement between our Group and garment manufacturers” above.

As confirmed by F&S, the major arrangement between our Group and garment brand companies or their sourcing companies is in line with the industry norm in the PRC garment accessories market.

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We normally do not enter into any long-term and legally binding contracts with these garment brand companies. Major garment brand companies or the sourcing companies designated by the garment brand companies would give us authorisation letters for use of trademarks and logos. During the Track Record Period and as at the Latest Practicable Date, we have entered into a framework agreement with a PRC garment brand company for our business cooperation, which was obtained through a tender process. Our sales to the garment manufacturers designated by this PRC garment brand company accounted for approximately 3.2% of our total revenue during the Track Record Period. No minimum purchase requirement is committed by this PRC garment brand company under the framework agreement. The current framework agreement will expire in March 2019, and our Directors believe that in view of our stable business relationship, we will continue to seek for business cooperation with this PRC garment brand company after the current framework agreement expires.

The salient terms in the framework agreement and purchase orders with this PRC garment brand company are summarised as follows:

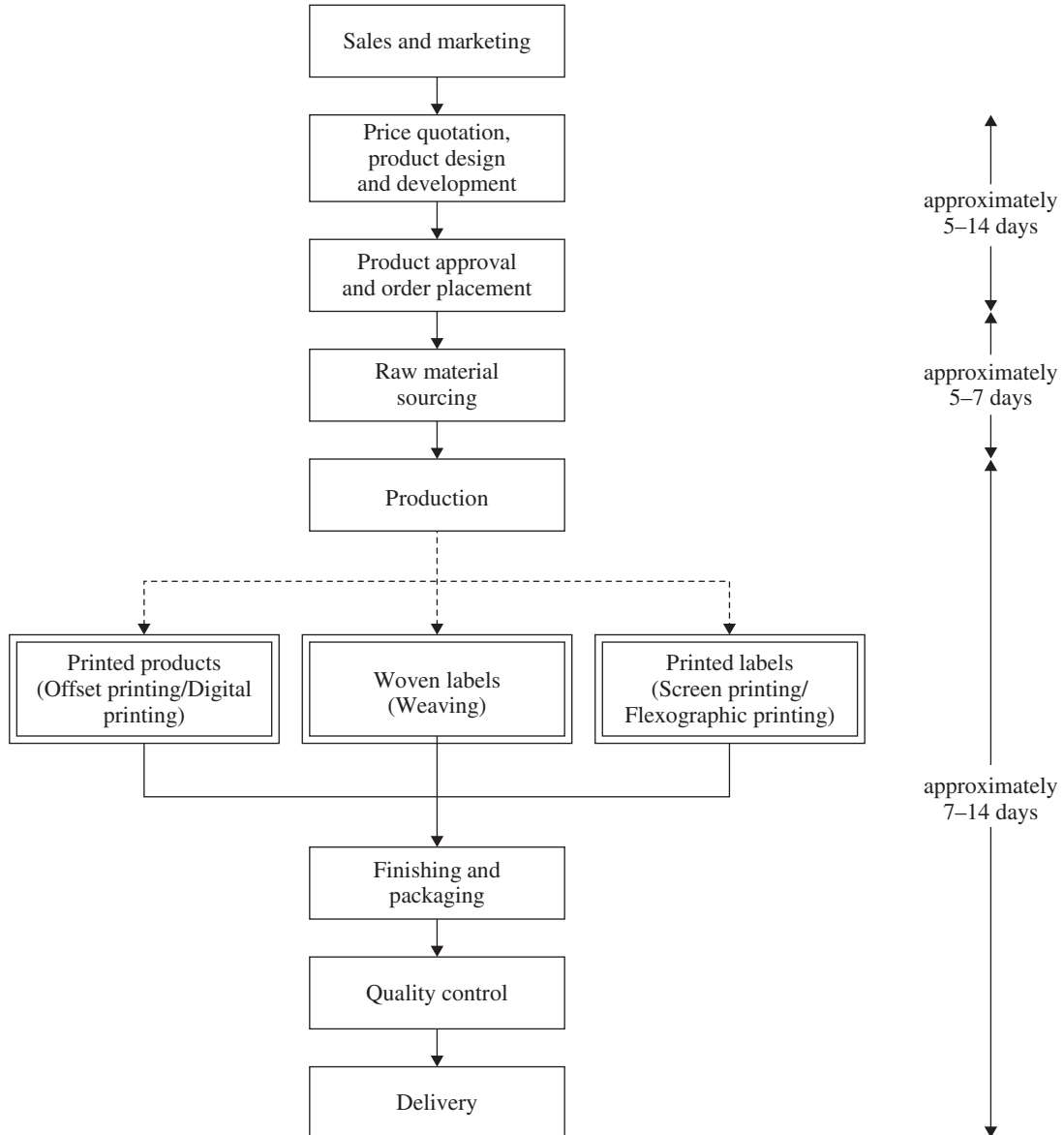
- Products : Woven labels and printed labels
- Contract period : Approximately three years, commencing from 20 January 2016 to 31 March 2019
- Placing of orders : This PRC garment brand company or garment manufacturers designated by it issue purchase order to us on order-by-order basis, which specifies the product name, specification, quantity, delivery date and place, etc.
- Payment and credit terms : Bank transfer, with credit period of 60 days
- Our Group's responsibilities : We are responsible for supply woven labels and printed labels to the garment brand companies according to the design and specification provided by the garment brand company.
- Delivery : We are responsible for the cost and liability arising from the delivery of products.
- Warranty : If the products do not comply with the specifications set out in the framework agreement, the products have to be returned to the garment brand company or our Group shall destroy the products within the prescribed time and bear the cost incurred.
- Warranty period : 1 year, with free exchange period of 7 days
- Liability : If the products are identified with quality problems, our Group shall compensate the loss of the garment brand company.

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## OPERATION

### Our business operation

The following flowchart shows the key phases of our business operation:



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### *Sales and marketing*

- (i) We conduct our sales and marketing by our sales and marketing department.
- (ii) Our sales and marketing department focuses primarily on the promotion of sales mainly to the garment brand companies and the sourcing companies. It has been putting efforts in promoting our Group's business, as well as sourcing and following up orders (such as production and delivery schedules) from potential and existing customers.

For further details on the sales and marketing, please refer to the paragraph headed "Sales and marketing" in this section.

### *Price quotation, product design and development*

- (i) We receive the designs and specifications provided by the garment brand companies and the sourcing companies for new products. Price quotation process may be initiated by the garment brand companies and the sourcing companies before our submission of product samples to garment brand companies and the sourcing companies for approval. When new products are launched, garment brand companies and the sourcing companies may provide artwork and product specifications (if any) to some suppliers for quotation purpose.
- (ii) Our product development team (a) produce and modify new product samples based on the garment brand companies' or the sourcing companies' designs and specifications, (b) discusses with the garment brand companies and sourcing companies on the choice of materials and ways to produce the products more cost effectively and (c) develop new products based on the market trend.

### *Product approval and order placement*

After the items are developed, our sales and marketing department presents the product samples to the garment brand companies and the sourcing companies for approval and confirm the price, such that our Group may accept orders from the designated customers for such products. The designated customers then place orders with our sales and marketing department.

### *Sourcing*

Our inventory management department sources our raw materials through our suppliers in the PRC. We source certain products which we do not produce, such as leather badges, buttons, and metal products so as to provide a one-stop garment accessories solutions to our customers.

### *Production*

As at the Latest Practicable Date, save for the situations as disclosed in the paragraphs headed "Our suppliers and subcontractors" in this section, we produced our products by ourselves in our factories in Huizhou, the PRC. Our major products are categorised into three types: (i) printed products, (ii) woven labels and (iii) printed labels. Due to their different natures in terms of machineries and raw

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materials required during production, we have established three production lines accordingly — (i) offset printing and digital printing for printed products; (ii) weaving for woven labels; and (iii) screen printing and flexographic printing for printed labels.

For further details on the production process, please refer to the paragraph headed “Production” in this section.

### *Packaging and finishing*

Production process normally takes seven to 14 days for most of our products. Afterwards, finished products are packaged and stored at our warehouses in specified conditions pending delivery.

### *Subcontracting*

We engage subcontractors to conduct certain sourcing, production and finishing and packaging processes (i) which we consider as more labour intensive, (ii) which involve technologies, machineries or licences that our Group did/does not have, (iii) to accommodate specific requirements of customers and/or (iv) for better time management and efficiency when required. Our Directors confirm that, except for arrangements agreed with Customer A and Suzhou Duoyue Printing, these subcontracting procedures only account for a part of the manufacturing process and none of our customers have placed any restrictions on our subcontracting arrangements. Also, all these subcontracted products are delivered back to our Group for final quality control checks and are subsequently delivered to our customers from our production facility.

For further details of suppliers and subcontractors especially with regards to Suzhou Duoyue Printing, please refer to the paragraph headed “Our suppliers and subcontractors” in this section.

### *Quality control*

We strongly emphasise quality control over our products and have implemented a comprehensive quality control system throughout the process from sourcing, subcontracting, production to packaging. Each production line has its own responsible staff members for quality control and as at the Latest Practicable Date, we had 18 quality control staff members in total. For products we outsource from other suppliers outside our production lines, we choose suppliers based on the quality of raw materials supplied, pricing, payment terms, delivery and business relationship and we monitor their quality from time to time.

We were awarded ISO 9001:2008 certificate in relation to the printing services related to garment accessories including tags, posters and booklets.

### *Delivery*

All of our customers are located in the PRC, but they are scattered in different provinces. They may collect products from our factory or request us to deliver the products to their warehouses or factories. Sometimes, logistics service providers appointed by us or our customers pick up products from our factory for delivery to locations designated by our customers for further delivery to other provinces.



## **SALES AND MARKETING**

We conduct our sales and marketing by our sales and marketing department. We mainly obtain our business opportunities through quotations and/or referrals given that we are the selected supplier of the garment brand companies and the designated sourcing companies. We have participated into tendering for one garment brand company and obtained purchase orders amounting to approximately RMB6.4 million in total, or approximately 3.2% of our total revenue, during the Track Record Period.

### **Our sales and marketing department**

Our sales and marketing department focuses primarily on the promotion of business relationship with garment brand companies and sourcing companies designated by the garment brand companies and sales to our customers. Our customer service team communicates with our customers on a regular basis to collect their feedback on our products, follows up orders (such as production and delivery schedules) from potential and existing customers and refers our customers to our production development team for advice on technical feasibility of design and material usage of the products. Our sales and marketing department also works closely with other departments such as production, sub-contracting, warehouse management, quality control and logistics departments to ensure consistent production of quality products.

Our sales and marketing department consists of (i) customer service team and (ii) business development team.

#### *(i) Our customer service team*

Our customer service team, consisting of 33 staff members as at the Latest Practicable Date, is responsible for communication with our customers on a regular basis to collect their feedback on our products, follow up orders (such as production and delivery schedules) from potential and existing customers, as well as maintaining sales relationship.

#### *(ii) Our business development team*

Our business development team, consisting of three staff members as at the Latest Practicable Date, is responsible for business development, relationship management and liaison with garment brand companies and sourcing companies. We also attend various garment industry exhibitions once to twice a year in the PRC, such as Guangzhou and Shanghai, to meet with prospective customers in our exhibition booth and to increase our brand image through the distribution and display of brochures.

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### OUR CUSTOMERS

We recognise revenue from the sale of our products when they are delivered to our customers. Our customers refers to garment brand companies, garment manufacturers and sourcing companies each designated by a garment brand company in the PRC, who place orders directly to us.

We set out below is a breakdown of our Group's revenue by customers:

#### For FY2015

Rank	Customer	Nature of principal business	Main products/services provided by our Group	Number of years of relationship	Approximate amount of revenue (RMB'000)	Approximate percentage of revenue of our Group %	Settlement method	Credit terms (days)	
1	Customer A	Sourcing company <i>(Note)</i>	Hangtags, Hanging tablets, woven labels and leather badge	6	14,515	15.2	Bank transfer	90	
2	Customer B	Garment manufacturer and supplier in the PRC	Hangtags, woven labels and printed labels	2	2,219	2.3	Bank transfer	30	
3	Customer C	Garment manufacturer and supplier in the PRC	Hangtags, woven labels, printed labels, adhesive tags and labels and other products	12	2,212	2.3	Bank transfer	60	
4	Customer D	Garment manufacturer and supplier in the PRC	Hangtags, woven labels, printed labels, adhesive tags and labels and other products	5	1,965	2.1	Bank transfer	90	
5	Customer E	Garment manufacturer and supplier in the PRC	Hangtags, woven labels, printed labels, adhesive tags and labels and other products	6	1,920	2.0	Bank transfer	90	
<b>Total</b>					22,831	23.9			

*Note:* For further details of this customer, please refer to the paragraph headed “Competitive strengths — We have established long-standing working relationships with the garment brand companies and the designated sourcing companies”.

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### For FY2016

Rank	Customer	Nature of principal business	Main products/services provided by our Group	Number of years of relationship	Approximate amount of revenue (RMB'000)	Approximate percentage of revenue of our Group %	Settlement method	Credit terms (days)	
1	Customer A	Sourcing company <i>(Note)</i>	Hangtags, hanging tablets, woven labels and leather badge	6	15,207	14.5	Bank transfer	90	
2	Customer F	Garment brand company <i>(Note)</i>	Hangtags, hanging tablets and woven labels	1	2,738	2.6	Bank transfer	60	
3	Customer C	Garment manufacturer and supplier in the PRC	Hangtags, woven labels, printed labels, adhesive tags and labels and other products	12	2,451	2.3	Bank transfer	60	
4	Customer G	Sourcing company of garment and garment accessory products in the PRC	Hangtags, woven labels and printing labels	1	2,293	2.2	Bank transfer	30	
5	Customer H	Garment manufacturer and supplier in the PRC	Hangtags, woven labels and printing labels	12	1,587	1.5	Bank transfer	30	
<b>Total</b>					24,276	23.1			

*Note:* For further details of this customer, please refer to the paragraph headed “Competitive strengths — We have established long-standing working relationships with the garment brand companies and the designated sourcing companies”.

For FY2015 and FY2016, our single largest customer accounted for approximately 15.2% and 14.5% of our total revenue, respectively, while our five largest customers, in aggregate, accounted for approximately 23.9% and 23.1% of our total revenue, respectively.

None of our Directors or Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company), or their respective close associates, had any interest in any of our five largest customers during the Track Record Period. Save as DY Apparel and DY Weaving, none of our customers during the Track Record Period was also a supplier of our Group. For further details, please refer to the section headed “Financial information — Related party transactions” and note 29 of the Accountants’ Report in Appendix I to this prospectus.

Save as disclosed in the paragraph headed “Our business model — Major arrangement between our Group and the garment brand companies or their sourcing companies” in this section, we have not entered into long-term and legally binding contracts with our customers. All of our customers place purchase orders on an order-by-order basis with us. In determining our product price, we generally take into account the total manufacturing cost and quantity of products in the purchase order, number of delivery places and the locations, customer relationship, and a certain percentage of profit margin. We generally do not offer discounts to customers. During the Track Record Period, our credit term granted to customers ranged from 30 to 90 days, and sales payment are settled mostly by bank transfer (except for a small amount of bank acceptance draft discounting for larger orders). Furthermore, individual

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credit evaluations are performed on customers. These evaluations focus on the customer's past history and current payment ability, and take into account information specific to the customer such as customer relationship.

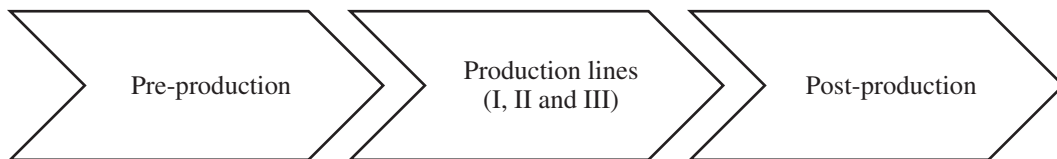
Our sales and marketing department is dedicated to communicate with our customers on a regular basis to collect their feedback on our products. Our Group has no warranty policy but our customers are allowed to fully return their products after delivery but before putting the products in use, should there be any defects. Our Group will then check if there are major defects as compared to our sample products, then rectify the defects, produce and deliver the products again should there be any defects. Our Directors confirmed that our Group is not subject to any material product liability or warranty under its business arrangements during the Track Record Period. Our Group did not record any material sales return during the Track Record Period. Our Directors were also not aware of any material complaints or claims relating to product quality from our Group and any material dispute with our customers, which reflected well on our quality control process and reinforced our reputation in the market.

During the Track Record Period, to the best knowledge of our Directors, as we are the selected supplier of the garment brand companies and the sourcing companies, most of our products sold to customers would be ultimately used as parts of finished garments of the garment brand companies which are based in the PRC and Hong Kong. As far as our Directors are aware, none of our customers ceased sourcing products from us due to prohibition from any of the garment brand companies and the sourcing companies during the Track Record Period.

## PRODUCTION

### Production process

Our products can be categorised into three main types being (i) printed products, (ii) woven labels and (iii) printed labels. Due to their difference in nature, we have established three major production lines for the production of these products accordingly. Depending on the product type and requirements from our customers, our production process for printed products, woven labels and printed labels involves the following principal stages:



***Pre-production***

Most of our products are typically produced according to the designs and specifications approved by the garment brand companies and the sourcing companies. Data such as trademarks are supplied directly by the garment brand companies and the sourcing companies to our Group via our online system or electronic means. Our online system automates the ordering process, allows our customers to place orders and to monitor the orders placed by the garment manufacturers in a real time basis, which enhances the efficiency of the ordering process. Our product design team transform such data into artwork as samples.

Samples are sent to the garment brand companies or the designated sourcing companies for approval. They would provide instructions for further minor tweak if necessary, such as the size, colour and layout to us for adjustment.

Once the sample is agreed, the garment brand companies or our customers will confirm and authorise the production.

***Production line (I) —  
Printed products***

This production line is established mainly for the production of printed products. Paper is the main raw material to be consumed in this production line.

The sale of printed products accounted for approximately 52.1% and 48.9% of revenue for FY2015 and FY2016 respectively. Our printing process is mainly divided into (i) offset printing and (ii) digital printing process.

***(i) Offset Printing***

Offset printing refers to a printing technique where the inked image is transferred from a plate to a rubber blanket, which then rolls and prints that image from the rubber blanket onto a piece of paper. Offset printing offers consistently high image quality for products and is relatively cost-effective for a large volume of print orders. Offset printing requires the use of printing plates.

The set of offset printing plates is mounted onto the cylindrical drum on each of the printing units of the printing machine and paper is cut to the required size to minimise wastage. During the offset printing process, ink will be applied on the plate and transferred onto the paper that passes through a set of printing units each with a different colour. For example, a five-colour offset printing machine will have five printing units which can produce colour prints of up to five colours at a time and printed products of six colours are required to be applied to a five-colour offset printing machine in two runs in order to produce the six colours effect. Meanwhile, we can also apply optical principle by four-colour process printing to create colourful pictures with CMYK colour model, that is, cyan, magenta, yellow, and key (black). In such case, a printing machine only with four printing units can also produce a colourful picture in one run. However, this printing technology could not produce certain colours such as gold and silver colour.

*(ii) Digital Printing*

Digital printing refers to methods of printing from a digital-based image directly to a variety of media using large-format and/or high-volume laser or inkjet printers.

***Production line (II) —  
Woven labels***

This production line is established mainly for the production of woven labels, such as brand labels and size labels. Yarn is the main raw material to be consumed in this production line.

Our woven labels are manufactured using our computerised weaving machines. Our weaving machines weave polyester yarns called warp and weft yarns and re-create the image such as logo or trademark provided by the garment brand companies or the sourcing companies in the form of artwork. The woven labels come off from the weaving machines in a tape form where they are then cut by ultrasonic or laser into final products.

***Production line (III) — Printed labels*** — This production line is established mainly for the production of printed labels, such as care content labels. Polyester ribbon and nylon ribbon are the main raw materials to be consumed in this production line.

Screen printing and flexographic printing are the major techniques applied in the production of printed labels.

*(i) Screen printing*

Screen printing refers to a printing technique whereby a mesh is used to transfer ink onto a substrate, except in areas made impermeable to the ink by a blocking stencil. A blade or squeegee is moved across the screen to fill the open mesh apertures with ink, and a reverse stroke then causes the screen to touch the substrate momentarily along a line of contact. This causes the ink to wet the substrate and be pulled out of the mesh apertures as the screen springs back after the blade has passed.

Screen printing enables print making in which a design is imposed on a screen of polyester or other fine mesh, with blank areas coated with an impermeable substance. Ink is forced into the mesh openings by the fill blade or squeegee and by wetting the substrate, transferred onto the printing surface during the squeegee stroke. As the screen rebounds away from the substrate, the ink remains on the substrate. It is also known as silk-screen, screen, serigraphy, and serigraph printing. One colour is printed at a time, so several screens are required to produce a multi-coloured image or design.

*(ii) Flexographic printing*

Flexographic printing is a printing process which employs the use of pliable relief or raised image plates. Flexographic label printing utilises rubber or polymer plastic plates which are more flexible and less expensive to produce.

Flexographic printing can be used to print on nearly any substrate whether its paper products, metallic or holographic films and foils, or plastic of all types.

***Post-production***

After the core production process, a series of post-production operations including die-cutting, holes drilling, stringing or cutting and folding, depending on the types of products, are undertaken by our Group or our subcontractors depending on operation needs and customers' requirements.


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Our logistics department is responsible for packaging and delivery. Customers may collect products from our factory or request us to deliver the products to their warehouses or factories. Sometimes, logistics service providers appointed by us or our customers pick up products from our factory for delivery to locations designated by our customers. To ensure timely delivery of our products, our online system links up with the system of the logistics service providers so that our customers and our Group can track the status of delivery online.

### Production facilities and machines




Our production factory is located in the PRC and we also have an office for administrative purposes in Hong Kong. For further details of our properties, please refer to the paragraph headed “Properties” in this section.

As at the Latest Practicable Date, we had the following machines:

Type of machine	Function	Average estimated remaining useful life (Year(s))	Quantity (Units)
<b>Pre-production</b>			
Computer to plate	To produce the plates using for offset printing productions of printed products	6	3
			



## BUSINESS

Type of machine	Function	Average estimated remaining useful life (Year(s))	Quantity (Units)
<i>Production line (I) — Printed products</i>			
Single-colour offset printing machine	To print on paper by offset printing with one colour	1	1
			
Two-colour offset printing machine	To print on paper by offset printing with two colours	3	3
			
Black and white digital printing machine	To print on paper by digital printing in black and white	8	3
			

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Type of machine	Function	Average estimated remaining useful life (Year(s))	Quantity (Units)
<i>Production line (II) — Woven labels</i>			

Weaving machine	To weave fabric according to computerised instructions	3	40
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*Production line (III) — Printed labels*

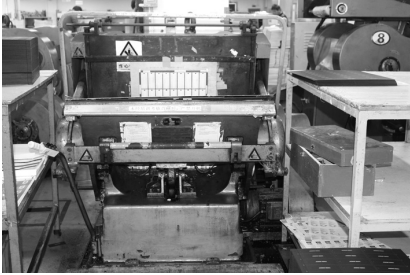


Screen printing machine	To print on ribbons by screen printing	4	10
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Flexographic printing machine	To print on ribbons by flexographic printing	7	7
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## BUSINESS

Type of machine	Function	Average estimated remaining useful life (Year(s))	Quantity (Units)
<b>Post-production</b>			
Hot foil stamping machine 	To press gold and/or silver colour on our printed products	6	3
Laminating machine 	To cover our printed products with a thin layer of paper and clear plastic for protection	4	7
Cutting machine 	To cut our products into designated size by knife cut/ultrasonic/laser	4	30

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Type of machine	Function	Average estimated remaining useful life (Year(s))	Quantity (Units)
Die cut machine	To cut round opening or drive thin metal ring into the opening on printed products	4	12



In addition to the aforesaid machines, we have various equipment for data control, colour management and reporting, material measurement for ensuring quality and accuracy throughout the production.

We own all the aforementioned production machines, which were purchased with our internal working capital. No hire purchases or other financing were obtained and they are not secured for any financing purposes of our Group. As at 31 December 2015 and 31 December 2016, the carrying amount of our machines amounted to approximately RMB7.5 million and RMB11.3 million, respectively.

According to the accounting policy of our Group, the estimated remaining useful life of our machines ranges from approximately one year to ten years. For details of depreciation method of the production facilities and machines, please refer to the section headed “Financial information — critical accounting policies, estimates and judgements” in this prospectus.

We carry out regular inspection and maintenance for certain machines, including weekly and monthly inspection of printing machines by our internal technicians. Our maintenance costs for plant and machinery amounted to approximately RMB1.3 million and RMB1.8 million for FY2015 and FY2016 respectively. Based on our current condition and existing operation status of the machines and the fact that we have not experienced any material disruption to our operation in connection with the machines during the Track Record Period and up to the Latest Practicable Date, our Directors believe that our machines are in good working condition. Our Directors have confirmed that we do not have any imminent need to replace our machines with new models but we seek to upgrade our production facilities regularly through software and hardware updates to keep up with the pace of technological developments so as to maintain our Group’s competitiveness. For further details, please refer to the paragraphs headed “Business strategies and future plans — Upgrading our production facilities and digital printing technology” in this section and the section headed “Future plans and use of proceeds” in this prospectus.

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### Production capacity

For illustrative purposes only, the following table sets out our estimated production capacity and estimated production volume of our production lines as well as the estimated utilisation rate for FY2015 and FY2016 respectively:

	<b>Number of products produced</b>	
	<b>FY2015</b>	<b>FY2016</b>
<b>Printing production line (Note 1)</b>		
Estimated production capacity	—	439,271
Estimated production volume	—	408,559
Estimated utilisation rate (%)	—	93.0
<b>Woven production line</b>		
Estimated production capacity	496,809	647,581
Estimated production volume	219,536	232,332
Estimated utilisation rate (%)	44.2	35.9
<b>Printed labels production line</b>		
Estimated production capacity	170,094	251,149
Estimated production volume	150,303	192,735
Estimated utilisation rate (%)	88.4	76.7

*Note 1:* Our Group engaged DY Apparel for printing services and supply of printed products during FY2015. After our Group obtained the printing licence in November 2015 and acquired machines from DY Apparel in January 2016 and March 2016, no further order has been placed to DY Apparel starting from January 2016 and up to the Latest Practicable Date.

*Note 2:* For illustrative purposes only, the estimated production capacity of our production facilities is measured in terms of the estimated number of products produced by the machines per hour in the optimal conditions, and multiplied by estimated working hours of each of such printing machines per day (assuming no overtime works) and 270 days per year (taking into account the statutory and public holidays in the PRC and our normal maintenance schedule), during the relevant period.

*Note 3:* The estimated production volume refers to the estimated total number of products produced during the relevant period.

*Note 4:* The estimated utilisation rate is derived from dividing the estimated production volume by the estimated production capacity. As the estimated production capacity is determined based on certain assumptions, our estimated utilisation rates as set out in the above table are for reference only and are subject to adjust if the underlying assumptions are different.

For FY2016, the utilisation rate of our production lines of printed products, woven labels and printed labels were approximately 93.0%, 35.9% and 76.7% respectively. The utilisation rate of woven label production lines were significantly lower than that of other production lines during the Track Record Period. Unlike printing machines for printing production line and printed labels production line which can produce products with different specifications, a particular machine in woven production line can only produce products with certain specific weaving specifications. In order to meet the needs of potential purchase orders with different weaving specifications, we need to equip with various types of weaving machines for producing a variety of products when this is required by our customers; and

therefore we had 40 machines in our woven production line, as compared with 7 and 17 machines in printing production line and printed labels production line, respectively, as at the Latest Practicable Date. During Track Record Period, most of the orders we received from our customers required certain specific weaving methods such that only some, but not all, weaving machines were utilised, and therefore the overall utilisation rate of woven production line were lower.

## **QUALITY CONTROL**

We strongly emphasise quality control over our products and have implemented a comprehensive quality control system.

Our quality control system includes the following processes:

- ***Purchase of raw materials*** — We usually select our suppliers based on the quality of raw materials supplied, pricing, payment terms, delivery and business relationship.
- ***Pre-production*** — Data control with a double entry system, under which we have two persons who input the relevant information into the system separately and the results of their inputs are compared against each other such that any errors in inputs can be spotted and correct, is adopted with special emphasis on material such as paper dimensions, thickness as well as colour management.
- ***Production*** — Our ink mixing personnel are responsible for mixing inks in the proportion to yield the required colour. By comparing with the quality control bar on the print sheet by using an advanced densitometer, which measures the colour density, screen tone, grey balance and print contrast, we make appropriate adjustment to the ink intensity of our products to ensure that our printing quality for a particular production run is consistent. Monitored by the quality control team to ensure that the production process conforms to specific quality control requirements. Managers of the three different production processes also carry out regular inspection for their respective production lines.
- ***Post-production*** — After the production process has been completed, our quality control staff members will check the finished products on a sampling basis.
- ***Subcontractor*** — Our quality control staff members inspects the quality of the processing work conducted by our subcontractors once those semi-finished products are delivered back to our factory before they undergo further processes in our production lines.
- ***Machinery and equipment management*** — Regular inspections and maintenance are carried out by our technicians to ensure optimum performance of our machinery and equipment.
- ***Staff quality awareness system*** — Regular training and continuous assessments of the performance of staff are conducted.

Each production line has its own responsible staff members for quality control and as at the Latest Practicable Date, we had 18 quality control staff members in total.

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We were awarded ISO 9001:2008 certificate in relation to the printing of printing services related to garment accessories including tags, posters and booklets.

### PROCUREMENT

We use a variety of raw materials and accessories in our manufacturing processes. The principal raw materials used in the production of our products are paper, yarn, and ribbon, and we also procure various garment accessories such as tapes, hanging tablets, buttons and strings that we do not produce in order to provide a one-stop garment accessories solution to our customers.

Procurement orders are issued by us when we make purchases. Payment terms granted by our suppliers ranged from approximately 30 to 90 days from the invoice date of the relevant purchases. We typically settle our trade payables by bank transfers.

We source our key raw materials, namely, paper, yarn and ribbon from our suppliers located in the PRC. We set out below our approximate purchase amount of paper, yarn and ribbon and their respective approximate percentage to our total purchases of materials and services (including subcontracting services) from our suppliers during the Track Record Period.

	<b>FY2015</b>		<b>FY2016</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Paper	6,827	20.2	9,117	25.4
Yarn	2,728	8.1	2,828	7.9
Ribbon	3,164	9.4	4,278	11.9

During the Track Record Period, the average purchase prices of paper, yarn and ribbon are set out below:

	<b>FY2015</b>	<b>FY2016</b>
	<i>RMB</i>	<i>RMB</i>
Paper (per kg)	6.7	6.8
Yarn (per kg)	23.1	23.0
Ribbon (per roll)	31.9	32.7

For sensitivity analysis on cost of raw materials, please refer to the section headed “Financial information — Changes of material costs, direct labour costs and subcontracting costs — Change in material costs” in this prospectus.

During the Track Record Period, we did not encounter any shortage or delay in the supply of raw materials. Our Directors confirm that there was no material fluctuation on the price of our key raw materials during the Track Record Period. If the costs of our key materials significantly increase, we may be able to pass on these additional costs to our customers.

## **INVENTORY**

We have raw material inventories which are stored in the warehouse in our factory. All raw materials are sourced when customers confirmed their orders according to their forecast and historical data. As our suppliers of paper, yarn and ribbon are mainly in the PRC, the items we have ordered are usually able to be delivered to us within five to seven days. We consider that it is not difficult to replace any of the suppliers in the market with comparable quality and prices. We maintain a stable relationship with our suppliers during the Track Record Period.

For FY2015 and FY2016, our inventory turnover days were approximately 8.6 days and 11.1 days respectively. Of approximately RMB3.2 million inventory as at 31 December 2016, approximately RMB0.5 million was attributable to finished goods and about all finished goods aged in 30 days. Our Group performs regular review of the carrying amounts of inventories with reference to aged inventories analysis, historical trends and management judgment. As such, write-down of inventories would be made when the carrying amounts of inventories decline below their estimated net realisable value. For FY2015 and FY2016, write-down of inventories of approximately RMB101,000 and RMB8,000 respectively have been provided.

## **OUR SUPPLIERS AND SUBCONTRACTORS**

We maintain a list of suppliers and subcontractors, and we regularly review the price lists from suppliers and subcontractors. We usually select our suppliers based on the quality of raw materials supplied, pricing, payment terms, delivery and business relationship. We normally conduct a quality assessment for potential suppliers and an annual evaluation for key existing suppliers. Such assessment generally involves inspection of qualification certificates such as FSC certificate and Oeko-Tex certificate. After the proposed supplier or subcontractor is approved, we will add the supplier or the subcontractor to the approved vendor list of our Group, and only those suppliers or subcontractors from our approved vendor list will be engaged by us. The approved vendor list of our Group is reviewed on annual basis for their performance in terms of product and service quality.

Furthermore, we engage subcontractors to conduct certain sourcing, production and finishing and packaging processes (i) which we consider as more labour intensive, such as certain stringing of labels to hangtags and adhering stickers to hangtags or garments, (ii) which involve technologies, machineries or licences that our Group did/does not have, such as technologies and machineries to produce heat transfer printing labels and woven labels with certain widths, and licences for printing of printed products and barcodes that our Group did not have, (iii) to accommodate specific requirements of customers and (iv) for better time management and efficiency when required. Upon completion of the subcontracting process by the subcontractors, our quality control staff inspect the quality of the semi-finished products or the finished products in accordance with the agreed requirements. During the Track Record Period, our subcontracting costs amounted to approximately RMB8.1 million and RMB3.7 million for FY2015 and FY2016, representing 12.8% and 5.6% of our cost of sales, respectively.

We have not entered into long-term and legally binding contracts with our raw material suppliers and subcontractors, and there are no standardised commercial agreements. The commercial arrangements between our Group and our raw material suppliers and subcontractors depend on each processing order taking into account factors such as quantity, pricing, service quality, proximity of their factories to our production facilities, time of delivery and business relationship. In general, we make order on order-by-



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order basis. Before we place orders, we normally seek quotations from our raw material suppliers and subcontractors with credit terms ranges from 30 to 90 days. Payment is mainly made by bank transfer in RMB.

During the Track Record Period, we had not received any material claims or complaints by our customers in respect of the quality of products processed by our subcontractors. Our Directors consider that our Group did/does not have undue reliance on our subcontractors. Our Group will be able to find alternative subcontractor(s) readily and on similar commercial terms if any of its major subcontractors ceases to provide services to our Group.

The table below sets out the details of our five largest suppliers (including the subcontractors) during the Track Record Period:

### For FY2015

Rank	Supplier	Nature of principal business	Main products/ services provided to our Group	Number of years of relationship	Approximate amount of purchase of materials and services (including subcontracting service) (RMB'000)	Approximate percentage of purchase of materials and services (including subcontracting service) of our Group %	Settlement method	Credit terms (days)
1	DY Apparel	Manufacturer of printed products	Raw materials and subcontracting service for printed products	8	8,657	25.6	Bank transfer	60
2	Supplier A	Supplier of textile	Hanging tablets	6	4,382	13.0	Bank transfer	30
3	Supplier B	Supplier of ribbons	Ribbons	5	2,198	6.5	Bank transfer	60
4	Supplier C	Supplier of paper	Paper	5	1,666	4.9	Bank transfer	30
5	DY Weaving	Manufacturer of woven labels and printed labels	Raw materials and subcontracting service for woven labels	7	1,371	4.1	Bank transfer	60
<b>Total</b>					18,274	54.1		

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### For FY2016

Rank	Supplier	Nature of principal business	Main products/ services provided to our Group	Number of years of relationship	Approximate amount of purchase of materials and services (including subcontracting service) (RMB'000)	Approximate percentage of purchase of materials and services (including subcontracting service) of our Group %	Settlement method	Credit terms (days)
1	Supplier A	Supplier of textile	Hanging tablets	6	3,457	9.6	Bank transfer	30
2	Supplier D	Subcontractor	Post production processing	1	2,994	8.3	Bank transfer	30
3	Suzhou Duoyue Printing	Manufacturer of printed products	Hangtags and stickers	2	2,776	7.7	Bank transfer	60
4	Supplier B	Supplier of ribbons	Ribbons	5	2,276	6.3	Bank transfer	60
5	Supplier C	Supplier of paper	Paper	5	<u>1,673</u>	<u>4.7</u>	Bank transfer	30
<b>Total</b>					<u><u>13,176</u></u>	<u><u>36.6</u></u>		

For FY2015 and FY2016, our single largest supplier accounted for approximately 25.6% and 9.6% of our purchase of materials and services (including subcontracting services), respectively, while our five largest suppliers, in aggregate, accounted for approximately 54.1% and 36.6% of our purchase of materials and services (including subcontracting services).

Save as DY Apparel and DY Weaving, none of our Directors or Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company), or their respective close associates, had any interest in any of our five largest suppliers during the Track Record Period. As at the Latest Practicable Date, our Group has ceased all transactions with DY Apparel and DY Weaving.

For sensitivity analysis on costs, please refer to the section headed ‘Financial information — Changes of material costs, direct labour costs and subcontracting costs’ in this prospectus.

For breakdown of cost of sales and the fluctuation in purchases of materials and services from suppliers during the Track Record Period, please refer to the section headed “Financial information — Description of selected items from consolidated statements of profits or loss and other comprehensive income — Cost of sales” in this prospectus.

Among our five largest suppliers (including the subcontractors) during the Track Record Period, Suzhou Duoyue Printing, DY Apparel and DY Weaving were our related parties.

## BUSINESS

### **Suzhou Duoyue Printing**

During the Track Record Period, we outsourced some of our production to Suzhou Duoyue Printing, which was owned by Mr. Huang as to 80%, on a case-by-case basis. We undertake orders from Customer A, being our largest customer for FY2015 and FY2016, which is a sourcing arm of a garment brand company. When Customer A placed orders with our Group, and we outsourced these orders to Suzhou Duoyue Printing. Both Customer A and its garment brand company have given consent to such outsourcing agreement.

The reason we outsourced some of our production to Suzhou Duoyue Printing was that Customer A would like to source their garment accessories from our Group but at a closer proximity from their warehouse in Shanghai. Although Suzhou Duoyue Printing is closer to Customer A's warehouse than our Group, Customer A placed orders and will continue to place orders with us directly, which was mainly due to (i) the established business relationship between Customer A and us for over 6 years, (ii) convenience of our online system which enables Customer A to trace the status of each order and to retrieve the data of historical orders, (iii) better labelling solutions we offered as a result of our in-depth knowledge in Customer A's products. Customer A continues to place orders to our Group after the cessation of the outsourcing arrangements in February 2017. During the Track Record Period, our Group has no overlapping customers with Suzhou Duoyue Printing. Mr. Huang has undertaken not to, and shall procure its controlled corporations including Suzhou Duoyue Printing not to, compete with our Group pursuant to a non-competition undertaking dated 24 June 2017.

### **DY Apparel**

During the Track Record Period, we also engaged DY Apparel, which was indirectly owned by Mr. Lam as to 55% and Mrs. Lam as to 20.5%, for printing services and supply of printed products on arm's length negotiation. As our Group obtained the printing licence in November 2015 and subsequently acquired machines from DY Apparel in January 2016 and March 2016, no further order has been placed to DY Apparel since January 2016. Mr. Lam and Mrs Lam ceased to have any shareholding in DY Apparel since May 2016.

### **DY Weaving**

During the Track Record Period, we also engaged DY Weaving, which was indirectly owned by Mr. Lam as to 26% and Mrs. Lam as to 25%, for production services of woven labels and printed labels on arm's length negotiation. No further order has been placed to DY Weaving since January 2016. Mr. Lam and Mrs. Lam ceased to have any shareholding in DY Weaving since May 2016.

## **SEASONALITY**

Labelling solutions and garment accessories are needed throughout the year, except that the manufacturing and supply of our products during the Lunar New Year holidays is lower. Our Directors confirm that we did not experience any material seasonal fluctuations during the Track Record Period.

## BUSINESS

### RESEARCH AND DEVELOPMENT

Our product development team develop new products based on the market trend. Save for these product development activities, during the Track Record Period, our Group did not engage in any major research and development activity nor incurred any material research and development expenses.

### COMPETITION

According to the F&S Report, due to rising production costs and competition between local and global players, industry players face a high pressure of making profit. Successful companies in such an environment have to be able to deliver high quality products and services while maintaining cost efficiency in order to perform target profit margin. As major garment brand companies with global manufacturing plants and retail branded goods worldwide are facing challenges from fast-changing consumer tastes in styles, colours and selections, they are eager to improve brand awareness looking for ways to get high quality finished goods from manufacturers to retail stores faster, at the lowest possible cost. As a result, garment accessories manufacturers are required to deliver consistently high quality products in a shorter production period. They have to maintain profitability while offering competitive prices. Advanced equipment and skilled workers are essential to deliver high quality products. In order to meet a client's changing demands and to offer consistently high quality, manufacturers have to consistently invest in the latest machinery and maintain a skilled and well-trained workforce.

### AWARDS AND CERTIFICATIONS

Over the past years, we have received various awards and certifications, among which are the following:

<b>Awards and certifications</b>	<b>First year of awarded</b>	<b>Valid period/ Year of award or certification</b>	<b>Issuing institution/ authority</b>	<b>Description</b>
ISO 9001:2008	2003	16 March 2017 to 15 March 2020	British Standard Institute	Compliance with ISO 9001:2008 quality management requirements
FSC certification	2013	15 August 2013 to 14 August 2018	Forest Stewardship Council A.C.	Our products meet the requirements of chain-of-custody by purchasing FSC certified mixed and recycled paper, production and sales of FSC certified mixed and recycled printed paper products.

## BUSINESS

Awards and certifications	First year of awarded	Valid period/ Year of award or certification	Issuing institution/ authority	Description
Oeko-Tex standard 100 Confidence in Textiles	2016	2 September 2016 to 31 July 2017 <sup>(Note)</sup>	Testex AG, Swiss Textile Testing Institute	Our woven labels made of white & dyed polyester yarn (with disperse dyestuffs) and woven badges made of white and dyed polyester yarn (with disperse dyestuffs) and polyester interlining in black and white meet the human-ecological requirements of the Oeko-Tex Standard 100. STL Garment Accessories is thus granted authorisation to use the Oeko-Tex mark.

*Note:* Our Directors will renew the certificate one month before 31 July 2017 and we believe that there will be no material factor which will impede our ability and chance of success in renewing the certificate.

### LICENCES AND PERMITS

Our Directors confirm that, and as advised by our PRC Legal Advisers, we had obtained all necessary licences, permits and approvals required for carrying on our business activities during the Track Record Period and up to the Latest Practicable Date.

As at the Latest Practicable Date, SLT Garment Accessories held the following licences and qualifications:

Licence/Permit	Issuing organisation	Date of issue	Expiry date
Guangdong Province Pollutant Emission Permit	Huizhou Environmental protection department Huicheng branch	15 July 2016	15 July 2019
Commodity barcode printing Qualification Certificate	Globe Standard 1 of PRC, Guangdong Branch	12 September 2016	11 September 2019
Printing Operation Licence	Huizhou Culture, Radio and Television, Publication Department	16 November 2015	31 December 2017 <sup>(Note)</sup>
Road Transportation Operation Licence	Transportation Department of Huizhou	8 November 2015	31 December 2017 <sup>(Note)</sup>

*Note:* As advised by our PRC Legal Advisers, there will be no material factor which will impede our ability and chance of success in renewing the licence.

## **ENVIRONMENTAL PROTECTION, HEALTH AND WORK SAFETY**

We are subject to various laws and regulations regarding environment protection, health and workplace safety in the PRC. For further information, please refer to the section headed “Regulatory overview” in this prospectus.

### **Environmental protection**

Our production facilities and printing process discharge various kinds of wastes. The primary wastes produced in our production process are sewage and disposed paper. Most of the used paper can be recycled and such materials were collected by waste collector. As at the Latest Practicable Date, we have the Guangdong Province Pollutant Emission Permit for disposing sewage and gases with a term of three years commencing from 15 July 2016 to 15 July 2019.

For FY2015 and FY2016, no material expenses were incurred for environment compliance matters. For details of applicable environmental protection related laws and regulations in the PRC, please refer to the section headed “Regulatory overview — Laws and regulations relating to environmental protection”.

### **Health and work safety**

We carry out our production in the PRC. To ensure the safety of our employees, we implement operational and safety procedures for our production process, including fire safety, warehouse safety, work-related injuries, and emergency and evacuation procedures. We provide our employees with occupational safety education and training to enhance their awareness of safety issues. We also carry out machine maintenance on a regular basis to ensure their smooth and safe operation.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we did not breach any applicable work safety related laws and regulations in the PRC and we do not receive any work-related injury claim. For the details of applicable work safety related laws and regulations in the PRC, please refer to the sections headed “Regulatory overview — Laws and regulations relating to safety production” and “Regulatory overview — Laws and regulations relating to labour protection”, respectively.

## **RISK MANAGEMENT AND INTERNAL CONTROL**

We have implemented a risk management policy to address various potential risks internally and externally in relation to our operations, including strategic risks, operational risks, financial risks and legal risks. Our risk management policy sets forth procedures to identify, assess, handle, mitigate and monitor various risks. Our management will hold regular meetings on a quarterly basis to discuss and assess various potential internal and external risks, and formulate continuing measures to minimise the occurrence of such risks.

**Findings and recommendation by the internal control consultant**

It is the responsibility of our Board to ensure that our Company maintains sound and effective internal control system to safeguard our Shareholders' investment and our Group's assets at all times. To continuously improve our Group's corporate governance, we have engaged an independent internal control consultant (the "**Internal Control Consultant**") to perform compliance procedures in connection with our internal control policies and further put forward respective recommendations for enhanced internal control measures as mentioned below.

We may be subject to risks in relations to the intellectual property rights of the garment brand companies and we may be exposed to claims in respect of the infringement of third party intellectual property rights. Therefore, to ensure that the trademarks or the designs and specifications provided by our customers do not infringe third party's intellectual property rights during the course of business, we have implemented the following internal control measures as of the date of prospectus:

- (i) obtain the relevant certificates, licences or authorisations to check if our customers have the right to authorise us to manufacture products with the relevant trademarks, designs or specifications;
- (ii) our sales and marketing department check the trademarks, designs or specifications through online databases maintained by intellectual property rights registries in various countries to ascertain the name of the owners of the intellectual property rights; external legal counsel will be consulted, if necessary; and
- (iii) incorporate terms in agreements with our customers and require them to, among others, (a) undertake that it is the registered owner/authorised licensee of the registered owner of the trademarks, designs or specifications; (b) hold us harmless from and against any and all third party claims and any associated cost, including legal costs, arising from the use of the products sold by our customers.

Further, we have adopted, or expect to adopt before the Listing, the following internal control policies and procedures:

- (i) To ensure that our Company has properly set up its organisational framework so as to comply with the requirements of the Corporate Governance Code in regard to the corporate governance structure of our Company, our Company sets up plans in order to arrange for the establishment of our Board and the corresponding board committees. Moreover, duties and responsibilities of our board members and the terms of reference of the respective board committees should be clearly specified and formally approved by our Board in writing.
- (ii) To ensure that all directors of our Company should be adequately covered by directors and officers liability insurance and renewal of the relevant directors and officers liability insurance policy should be made by our Company upon its expiry.

## BUSINESS

- (iii) Our Company shall establish an induction package for orientating the new directors as soon as practicable. The induction package should cover the duties and responsibilities of the directors under relevant laws and regulations as well as the introduction of the business and operations of our Group in order that the new directors can familiarise themselves with the background and the requirements of our Group.
- (iv) To ensure that our Company shall comply with the requirements of the GEM Listing Rules, our Company establishes formal written procedures and guidelines in accordance with the GEM Listing Rules. Furthermore, our Company shall ensure that the formal written procedures and guidelines are properly circulated to our Board, management and all staff for proper implementation of the procedures.
- (v) Our Company has formulated a risk assessment and on-going monitoring policy on the purchase of wealth management products. The financial controller of our Company reviews the cash flow before proposing investments on wealth management products. A proper approval mechanism is adopted according to various threshold amount, and a thorough monitoring system is in place to avoid counterparty and liquidity risks. In January 2017, our Group reviewed our treasury management policies and adopted a more conservative policy on wealth management products. In the ordinary course of business, no wealth management products should be invested as our Directors are of the view to lower our overall financial risk level. Our Company shall establish an investment management committee (the “Investment Management Committee”) comprising all our executive Directors and independent non-executive Directors. Our executive Directors and our financial controller do not have substantial experience in purchasing wealth management products and had historically relied on designated personnel at the financial institutions to understand the risk of these products for further assessment. Two of our independent non-executive Directors, Mr. Moy and Mr. Ho, are certified public accountants of the Hong Kong Institute of Certified Public Accountants, Mr. Moy has worked as a type 9 (asset management) licensed representative managing an equity portfolio in an asset management firm. Mr. Moy’s experience and knowledge in dealing with financial products will be beneficial for the Investment Management Committee to understand the product nature and risk profile of the wealth management products and the like. In addition, Mr. Ho, as a financial controller of GCL New Energy Holdings Limited, a company listed on the Stock Exchange (stock code: 451) he is experienced in analysing the parameters of investment products such as yield and return, duration, and volatility given his involvement in arranging finance leases and bond issuances for that company. In light of the Mr. Moy and Mr. Ho’s expertise and experience as described above, our Directors believe that the Investment Management Committee is capable to assess the risk of the wealth management products and the like in which the Company might invest after Listing. In the future, wealth management products with medium risk ranking or lower can be invested only when the investment plan has been approved in writing by the Investment Management Committee. Our Directors will only consider to invest in wealth management products which are capital protected in nature with minimal risk when the current ratio of our Group exceeds 3 times, and our Directors expect the total carrying principal amount of such investments shall be less than RMB1 million.



## BUSINESS

- (vi) To protect our customers' intellectual property interests given that we engage subcontractors from time to time, our Company shall (I) incorporate terms in agreements with its subcontractors and require them to (a) undertake that they will be fully responsible and accountable to prevent the leakage of confidential information and/or use of copyright/patent relating to the customers' intellectual property rights during the process of the subcontracting work; (b) hold our Company harmless from and against any and all third party claims and any associated costs, including but not limited to legal costs, arising from the use of the subcontracting services by our Group; and (II) check the total quantity of subcontracting products received by our inventory management department from the relevant subcontractors to ensure that they equals to the quantity of the materials delivered to the subcontractors before commencement of the subcontracting process.

In February 2017, the Internal Control Consultant performed a follow-up review on the above internal control policies and procedures. Upon the review, our Group did not have significant deficiencies in our internal control policies and system.

We do not adopt any hedging policy. For details of risk associated, please refer to "Risk factors — Increases in the prices of raw materials may materially and adversely affect our business, financial condition and results of operations."

### **Directors' and the Sole Sponsor's View**

Our Directors consider that the various internal control measures adopted by our Group are adequate and effective having taken into account that (a) our Group has implemented (or will implement, where applicable) the above measures, and (b) there were no material non-compliance incidents during the Track Record Period and up to the Latest Practicable Date.

The Sole Sponsor, after considering the above and having reviewed the internal control measures and the findings of the Internal Control Consultant, concurs with the view of our Directors that the various internal control measures adopted by our Group are adequate and effective.

## BUSINESS

### EMPLOYEES

As at the Latest Practicable Date, we had a total of 326 full-time employees in the PRC and two full time employees in Hong Kong excluding our non-executive Director and executive Directors. The following table sets out a breakdown of our employees by function as at the Latest Practicable Date:

	<b>As at the Latest Practicable Date</b>
<b>Office</b>	
Management	2
Sales and marketing department	36
Accounting and finance department	12
Administration department	41
Human resources department	3
Information technology department	6
<b>Production related</b>	
Printed products	98
Printed labels	49
Woven labels	57
Inventory management department	26
<b>Total</b>	<b>330</b>

### Training and recruitment policies

We provide induction programmes and training programmes to our staff to enhance their technical and product knowledge including safety standards, quality control and job related skills, including the latest round of training of RFID technology, heat transfer printing know-how and other technological development which we are having a trial run and intend to expand on. We also assess the available human resources on a continuous basis and will determine whether additional personnel are required to cope with our Group's business development.

### Directors and staff remuneration

Our Group incurred staff costs (including directors remuneration) of approximately RMB27.5 million, and RMB29.8 million for FY2015 and FY2016 respectively.

**Welfare contribution**

*PRC*

Pursuant to the applicable PRC laws and regulations, we are required to contribute to various social security insurance including pension contributing plans, medical insurance, work related injury insurance, maternity insurance and unemployment insurance, and housing provident fund for our employees in the PRC.

During the Track Record Period, our Group's contribution to various social security insurance for FY2015 and FY2016 were approximately RMB2.7 million and RMB3.2 million, respectively.

*Hong Kong*

We maintain employees' compensation insurance as required under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) for our employees in Hong Kong. We also participate in a provident fund scheme registered under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all our eligible employees in Hong Kong.

**Employee relationship**

Our Group believes that we have maintained stable relationship with the employees, and have not experienced any significant labour dispute over the Track Record Period.

During the Track Record Period, our Group has not experienced any work stoppage or labour strike and has not experienced any significant difficulty in recruiting or retaining qualified staff.

**Share Option Scheme**

Our Group has conditionally adopted the Share Option Scheme under employees of our Group, including executive Directors and other eligible participants, may be granted options to subscribe for Shares. The principal terms of the Share Option Scheme are summarised in the paragraph headed "D. Share Option Scheme" in Appendix IV to this prospectus.

## BUSINESS

### PROPERTIES

#### Lease premises

As at the Latest Practicable Date, we leased certain premises as set out below:

Premises	Usage	Term	Approximate gross floor area
1st, 2nd, 3rd and portion of the 5th Floor, No. 6 Taihao Road, Tower 3, Digital Industrial Park, Hui Cheng District, Huizhou City, the PRC <sup>(1)</sup>	Factory and office	1 January 2017 to 31 December 2019	19,563 sq.m.
Room 820, 8th Floor, Fortune Commercial Building, 362 Sha Tsui Road, New Territories <sup>(2)</sup>	Commercial	10 July 2016 to 9 July 2018	291 sq.ft.

*Notes:*

1. Two separate lease agreements were entered into by STL Garment Accessories and STL Apparel Accessories with the same landlord, being our connected person, for these properties. Upon the Listing, the lease of these properties will constitute continuing connected transactions under the GEM Listing Rules. For further details, please refer to the section headed “Connected transactions” in this prospectus.
2. The landlord is an independent third party.

#### Owned properties

As at the Latest Practicable Date, we did not own any real property.

### INTELLECTUAL PROPERTY RIGHTS

We have registered four trademarks in Hong Kong and have applied for the registration for one trademark in the PRC. We are also the registered owner of the domain names, [www.sthl.com.hk](http://www.sthl.com.hk) and [www.stlhz.com](http://www.stlhz.com). For further information, please refer to the paragraph headed “B. Further information about the business of our Group — 2. Intellectual property rights” in Appendix IV to this prospectus.

As at the Latest Practicable Date, we were not involved in any litigation relating to the infringement of any intellectual property rights belonging to third parties in respect of our products. Our Directors have confirmed that neither our Group nor any of our Directors have received any notice of any infringement of intellectual property rights up to the Latest Practicable Date.

## **BUSINESS**

### **INSURANCE**

As at the Latest Practicable Date, we maintained property all risks insurance policies for our inventories, property, plant and equipment for our operations in the PRC and employees' compensation insurance for our employees in Hong Kong.

During the Track Record Period and up to Latest Practicable Date, we had not made any material insurance claims. Our Directors consider that the above insurance plans and amounts insured are sufficient to cover the operational risks and protect us from any potential loss or damage and are in line with the industry norm.

### **LEGAL PROCEEDINGS**

We may be involved in legal proceedings in the ordinary course of our operations. During the Track Record Period and as at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance. In addition, our Directors are not aware of any litigation, arbitration or claim pending or threatened by or against us which may have a material adverse effect on our business, financial condition or results of operations.

### **REGULATORY COMPLIANCE**

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had complied with all major applicable laws and regulations in the PRC and Hong Kong in all material respects and there had been no material non-compliance incidents.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme), our Company will be owned as to 75% by Neo Concept, which is wholly owned by Mr. Lam. Neo Concept and Mr. Lam will be directly or indirectly holding 75% of the issued share capital of our Company and are regarded as our Controlling Shareholders under the GEM Listing Rules.

Neo Concept is an investment holding company incorporated in the BVI while Mr. Lam is the founder of our Group and has been leading the development and strategic planning of our Group throughout the years. For details of Mr. Lam's background and experience, please refer to the section headed "Directors and senior management — Directors — Chairman and non-executive Director" in this prospectus.

### RULE 11.04 OF THE GEM LISTING RULES

As at the Latest Practicable Date, Mr. Lam and his close associates hold interest in some garment manufacturing and trading business as well as food manufacturing business, which are not likely to compete with the business of our Group. Each of our Controlling Shareholders, our Directors and their respective close associates does not have any interest apart from the business of our Group which competes or may compete with the business of our Group and which requires disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

In addition, each of our Controlling Shareholders has given a non-competition undertaking in favour of our Group. For details, please refer to the paragraph headed "Non-competition undertaking" in this section.

### Companies excluded from our Group during the Reorganisation

Prior to the Reorganisation, the entire equity interests of STL Garment Accessories and STL Apparel Accessories were held by Reach New, which is an investment holding company. Other than STL Garment Accessories and STL Apparel Accessories, Reach New held the majority interest in (1) a Hong Kong company namely Best Sources Development Limited (達資發展有限公司) ("Best Sources"), which principally engaged in the trading of sweaters; and (2) a PRC company namely Tai Neng Jian Bio-tech (Huizhou) Company Limited\* (肽能健生物科技(惠州)有限公司) ("Tai Neng Jian"), which was established with an intention to engage in the development of biochemical products (Reach New, Best Sources and Tai Neng Jian are collectively referred to as the "Excluded Companies"). Tai Neng Jian was dormant and was deregistered on 9 August 2016.

Mr. Lam holds the entire issued share capital of Reach New. Best Sources is owned as to 60% by Reach New and 40% by D&F Investments Limited, a company incorporated in the BVI with limited liability. D&F Investments Limited is owned as to 50% by Mr. Huang and 50% by Mr. Huang Qingxi, who are both our connected persons. Before the deregistration of Tai Neng Jian, Reach New owned 60% of the equity interest of Tai Neng Jian while the remaining 40% equity interest were owned by Huizhou Tai Neng Agricultural Technology Company Limited\* (惠州市肽能農業科技有限公司) ("Tai Neng

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

**Agricultural Technology**”). To the best knowledge and information of the Directors after making reasonable enquiries, Tai Neng Agricultural Technology and its ultimate beneficial owners are independent third parties.

The businesses of the Excluded Companies are not related to our Group’s principal business and are unlikely to compete with our Group. They were excluded from our Group during the Reorganisation. For details, please refer to the section headed “History, Development and Reorganisation — Companies excluded from our Group during the Reorganisation” in this prospectus.

### **Companies disposed of by Mr. Lam and Mrs. Lam to Mr. Huang during the Track Record Period**

During the Track Record Period, Mr. Lam and Mrs. Lam were also interested in some companies other than members of our Group, including some engaging in the manufacture and supply of garment related products and apparel accessories. Our Group entered into some related party transactions with some of these companies, namely (i) DY Apparel, (ii) DY Weaving and (iii) Suzhou Duoyue Garment. For details of these related party transactions, please refer to note 29 to the Accountants’ Report as set out in Appendix I to this prospectus. Among those related parties transactions, in January 2016 and March 2016, our Group purchased most of the printing machines and weaving machines owned by DY Apparel, DY Weaving and Suzhou Duoyue Garment which were suitable to our Group’s operation and expansion plan. We selected those printing machines and weaving machines which were suitable to us and of satisfactory condition. We purchased those printing machines and weaving machines from these companies because other shareholders of these companies considered they would no longer engage in any manufacturing business in the PRC and would focus on pure trading of garment related products and apparel accessories to overseas market so they sold the printing machines and weaving machines to us. For details, please refer to the section headed “Financial Information — Related party transactions” in this prospectus.

Mr. Lam and Mrs. Lam have subsequently disposed of their respective interests in these companies to Mr. Huang, who is a connected person of our Company but not a close associate of Mr. Lam. Such disposal was based on arm’s length negotiation for monetary consideration. Mr. Huang has over 15 years of experience in garment accessories business in the PRC. All these companies have no longer conducted any transactions with our Group as at the Latest Practicable Date and shall be independent entities as separated from our Group. Mr. Huang has undertaken not to, and shall procure his controlled corporations not to, compete with our Group pursuant to a non-competition undertaking dated 24 June 2017. Mr. Huang has undertaken to, and shall procure his controlled corporations to, provide our Group with their list of customers on the first business day of each month for our inspection so as to ensure there would be no overlapping of customers and no competition between our Group and Mr. Huang and his controlled corporations. If Mr. Huang breached the said undertaking, our Company is entitled to give notice in writing demanding Mr. Huang to cease the competing business within 30 days of our notice in writing. Our independent non-executive Directors will review the compliance of the said undertaking and report the review results to the Board.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The following table summarises the companies disposed of by Mr. Lam and Mrs. Lam to Mr. Huang (the “**Divested Companies**”) during the Track Record Period:

Disposed company	Former name of the company	Place of incorporation	Principal business of the company prior to the disposal to Mr. Huang	Mr. Lam and Mrs. Lam’s effective interest in the company immediately prior to the disposal to Mr. Huang (approximately)
Smileful (H.K.) Garment Accessories Company Limited (多悅(香港)服飾有限公司) (“ <b>Smileful HK</b> ”)	Sin Tin Lun (H.K.) Garment Accessories Company Limited (新天倫(香港)服飾有限公司)	Hong Kong	Investment holding and trading of garment related products and apparel accessories and sales to overseas markets	51%
Smileful Offset Printing Factory Limited (多悅柯式印刷廠有限公司) (“ <b>Smileful Offset</b> ”)	Sun Tin Lun Offset Printing Factory Limited (新天倫柯式印刷廠有限公司))	Hong Kong	Investment holding and trading of garment related products and apparel accessories and sales to overseas markets	75.5%
Smileful International Garment Accessories Limited (多悅國際服飾有限公司) (“ <b>Smileful International</b> ”)	Sun Tin Lun International Garment Accessories Limited (新天倫國際服飾有限公司)	Hong Kong	Trading of garment related products and apparel accessories and sales to overseas markets	70.4%
DY Weaving (Note)	新天倫織造(惠州)有限公司 (Sun Tin Lun Weaving (Huizhou) Co., Ltd*) (Note)	PRC	Manufacture and sale of apparel accessories	51%
DY Apparel (Note)	新天倫服飾(惠州)有限公司 (Sun Tin Lun Accessories (Huizhou) Co., Ltd*) (Note)	PRC	Manufacture and sale of apparel accessories	75.5%
Smileful Holdings limited (多悅集團有限公司)	Sun Tin Lun Holdings Limited (新天倫集團有限公司)	Hong Kong	Investment holding	100%
Smileful Trading Limited (多悅貿易有限公司)	—	Hong Kong	Investment holding	51%
Suzhou Duoyue Garment (Note)	蘇州新天倫服飾有限公司 (Suzhou Sun Tin Lun Apparel Co., Ltd*) (Note)	PRC	Manufacture and sale of apparel accessories	51%

*Note:* These entities entered into some related party transactions with our Group during the Track Record Period. For details, please refer to note 29 to the Accountants’ Report as set out in Appendix I to this prospectus.



## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Based on the main reasons that (i) the respective corporate structures of the Divested Companies have been different and separate from our Group's structure since their respective incorporation and involved other third party ultimate shareholders who did not agree to participating in the listing exercise, and (ii) the subsequent disposal can allow Mr. Lam to devote more time and efforts to our Group's business, Mr. Lam and Mrs. Lam have subsequently disposed of their respective interests in the Divested Companies to Mr. Huang.

Prior to the disposal of the Divested Companies to Mr. Huang, Mr. Lam and Mrs. Lam together indirectly owned 75.5%, 51% and 51% of the equity interest of DY Apparel, DY Weaving and Suzhou Duoyue Garment, respectively. The other third party ultimate shareholders controlled the minority stakes in DY Apparel, DY Weaving and Suzhou Duoyue Garment, respectively, which were not insignificant. As there was no agreement among the ultimate shareholders on any drag-along right exercisable by Mr. Lam and/or Mrs. Lam, consensus of the other third party ultimate shareholders was required for injecting the entire equity interests in DY Apparel, DY Weaving and Suzhou Duoyue Garment into our Group. Prior to the Reorganisation, enquiry was made by Mr. Lam to the other third party ultimate shareholders on their intention to join the listing exercise and the other third party ultimate shareholders indicated that they would not participate in the listing exercise and object to injecting the equity interests in DY Apparel, DY Weaving and Suzhou Duoyue Garment into our Group. Without such consensus, only the majority interest controlled by Mr. Lam and Mrs. Lam could be injected into our Group, and DY Apparel, DY Weaving and Suzhou Duoyue would become non-wholly owned subsidiaries of our Group with minority interest held in other shareholders' hands. If Mr. Lam and Mrs. Lam injected the majority interests in DY Apparel, DY Weaving and Suzhou Duoyue controlled by them to our Group despite the views of the other third party ultimate shareholders, these companies would have been converted from private companies to part of a listed group. Converting the private companies to part of a listed group notwithstanding the absence of consensus of the ultimate shareholders of the listing plan might expose Mr. Lam and Mrs. Lam to the risk of possible shareholders' disputes and legal claims on the ground of unfair prejudice.

In addition, the management of each of DY Apparel, DY Weaving and Suzhou Duoyue Garment was substantially different from our Group during the Track Record Period up to the date of disposal. If DY Apparel, DY Weaving and Suzhou Duoyue Garment become non-wholly owned subsidiaries of our Group, our Group would require agreement or approval from the other third party ultimate shareholders or third party on key corporate actions in connection with these companies.

Prior to the disposal, Smileful HK, Smileful Offset and Smileful International engaged in pure trading of garment related products and apparel accessories including buttons, polybags for packaging, pins, rivets, printed products, woven labels and printed labels and exports to overseas markets, which was different from the principal business of our Group. Although some products traded by these companies are similar to the products manufactured by our Group which may lead to some competition between our Group and these companies, given that (i) these companies engaged in pure trading of garment related products and apparel accessories and did not engage in any manufacturing business, while our Group engages in the manufacture of apparel accessories; (ii) these companies exported garment related products and apparel accessories to overseas market, while our Group principally engages in domestic sales of apparel accessories in the PRC, (iii) there was no overlapping of customers between our Group and these companies at the time of the disposal of these companies, our Directors believe that there is no extreme competition between our Group and these companies. In addition, Mr. Huang has undertaken not to, and shall procure his controlled corporations not to, compete with our

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Group pursuant to a non-competition undertaking dated 24 June 2017, and our Company has a right to demand Mr. Huang to cease any competing business within 30 days of our notice in writing and Mr. Huang has undertaken to comply with it.

Our Directors confirm that each of the Divested Companies had no material non-compliance and had not been involved in any legal proceedings against any of them during the Track Record Period up to the date of disposal. Our Directors further confirm that our Company would be able to meet the operating cash-flow requirement under Rule 11.12A(1) of the GEM Listing Rules if the Divested Companies were included in our Group.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on our business independently of, and does not place undue reliance on, our Controlling Shareholders or their respective close associates, taking into consideration the following factors:

#### Management independence

We have an independent management team comprising our executive Directors and our senior management who have substantial experience in our Group's business. Our management team is able to implement our Group's policies and strategies and perform their roles in our Company independently.

We aim at establishing and maintaining a strong and independent Board to oversee our Group's business. Our Board consists of six Directors, comprising two executive Directors, one non-executive Director and three independent non-executive Directors. The three independent non-executive Directors have extensive experience in different areas or professions. The main function of our Board includes the approval of our overall business plans and strategies, monitoring the implementation of these plans and strategies and the management of our Group.

Our Company will have a common director with Neo Concept, namely Mr. Lam. Despite the common directorship, our Company believes that the management independence between our Company and Neo Concept will be maintained as Neo Concept is only an investment holding company.

Further, each of our Directors is aware of his/her fiduciary duties as a Director which requires, among other things, that he/she acts for the benefit and in the best interests of our Company and our Shareholders as a whole, and does not allow any conflict between his/her duties as a Director and his/her personal interest to exist. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum. In case Mr. Lam are required to abstain from voting at Board meetings due to potential conflict of interest, other executive Directors and our independent non-executive Directors will be able to form a quorum and ensure that the decisions of the Board are made after due consideration of independent and impartial opinion.

In view of the aforesaid, our Directors are of the view that we are capable of managing the business of our Group independently of our Controlling Shareholders and their respective close associates after the Listing.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### **Operational independence**

We have established our own organisational structure comprising individual departments, each with specific areas of responsibilities. We have not shared our operational resources, such as suppliers, customers, and marketing, sales and general administration resources with our Controlling Shareholders and/or their respective close associates.

Further, we have sufficient capital, equipment and employees to operate our businesses independently. We have also established various internal controls procedures to facilitate the effective operations of our business.

On 1 March 2017, Sweater Garment (Huizhou) entered into two tenancy agreements (collectively, the “**Current Tenancy Agreements**”) with STL Garment Accessories and STL Apparel Accessories, respectively, pursuant to which Sweater Garment (Huizhou) agreed to lease us our existing production facility for a three-year term commencing on 1 January 2017 and ending on 31 December 2019 with a monthly rent of RMB215,531 and RMB11,662, respectively. For details, please refer to the section headed “Connected transactions” in this prospectus.

Pursuant to the Current Tenancy Agreements, Sweater Garment (Huizhou) has given STL Garment Accessories and STL Apparel Accessories a first right of renewal of the tenancy at the existing terms upon the expiry of the Current Tenancy Agreements. Furthermore, Mr. Lam has unconditionally and irrevocably given an undertaking to our Group that he would use his best endeavours to procure Sweater Garment (Huizhou) to renew the Current Tenancy Agreements at the existing terms with STL Garment Accessories and STL Apparel Accessories upon the expiry of the Current Tenancy Agreements.

Our Directors confirm that there are alternative premises in close proximity to our existing production facility, including those located in the industrial park of our existing production facility, at similar rent and terms. In the event that our Company was required to relocate our production facility, we foresee no material disruption to our production during the relocation as we plan to negotiate and confirm the renewal of the tenancy prior to the expiry of the Current Tenancy Agreements. We will comply with the relevant GEM Listing Rules in relation to the renewal of the Current Tenancy Agreements.

Save as disclosed in the section headed “Connected transactions” in this prospectus, our Group has not entered into any connected transaction with any of our Controlling Shareholders that will continue after the Listing.

### **Financial independence**

We have our own accounting systems, accounting and finance department and independent treasury function for cash receipts and payments. We make financial decisions according to our own business needs.

Our accounting and finance department will be responsible for the financial reporting, liaising with our auditors, reviewing our cash position and negotiating and monitoring our bank loan facilities and drawdowns.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

As at 30 April 2017, the amount due to Mr. Lam to our Group was approximately RMB1.6 million. As the Latest Practicable Date, our Controlling Shareholders have not provided any financial assistance, including loans or guarantees to our Group. The amount due to Mr. Lam will be settled by internal resources before the Listing.

Our Directors are of the view that our Group is not financially dependent on our Controlling Shareholders or their respective close associates in our Group's business operations and we are able to obtain external financing on market terms and conditions for our business operations as and when required.

### **Independence of major suppliers**

Save as DY Apparel and DY Weaving, none of our Directors or Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company), or their respective close associates, had any interest in any of our five largest suppliers during the Track Record Period. As at the Latest Practicable Date, our Group has ceased all transactions with DY Apparel and DY Weaving. For details, please refer to the section headed "Business — Our suppliers and subcontractors" in this prospectus.

### **Independence of major customers**

None of our Directors or Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company), or their respective close associates, had any interest in any of our five largest customers during the Track Record Period.

## **NON-COMPETITION UNDERTAKING**

Our Controlling Shareholders as covenantors (each a "**Covenantor**", collectively, the "**Covenantors**") executed the Deed of Non-competition in favour of our Company (for ourselves and as trustee for our subsidiaries) and confirm that none of them nor any of their close associates (other than any member of our Group) is involved or engaged in any business which, directly or indirectly, competes or may compete with the business of our Group, or has any interest (whether directly or indirectly) in such business.

Pursuant to the Deed of Non-competition, each Covenantor undertakes that, from the Listing Date and ending on the occurrence of the earliest of (a) the date on which the Shares cease to be listed on GEM; (b) the date on which the Covenantors cease to be a Controlling Shareholder; or (c) the date on which the Covenantors beneficially own or become interested jointly or severally in the entire issued share capital of our Company:

### **1. Non-competition**

He/it will not, and will use his/its best endeavours to procure any Covenantor, his/its close associates, Mr. Huang (collectively, the "**Controlled Person(s)**") and any company(ies) directly or indirectly controlled by any Covenantor (excluding any member of our Group) and any company(ies) directly or indirectly controlled by Mr. Huang (the "**Controlled Company(ies)**") not to, either on his/its own or in conjunction with any person, body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, for profit or not, among

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

other things, carry on, participate in, hold, engage in, be interested in, acquire or operate (in each case whether as a shareholder, director, partner, agent, employee, or otherwise, and whether for profit, reward or otherwise), or provide any form of assistance to any person, firm or company (except members of our Group) to conduct any business or activity which, directly or indirectly, competes or may compete with the business carried on or contemplated to be carried on by our Group in Hong Kong and such other places as our Group may conduct or carry on business from time to time, including but not limited to the manufacture and supply of garment accessories in the PRC (the “**Restricted Business**”).

The Deed of Non-competition does not apply if the Controlled Person(s) and Controlled Company(ies) in aggregate own any interest not exceeding 5% of the issued shares in any company conducting any Restricted Business (the “**Relevant Company**”), and the Relevant Company is listed on any recognised stock exchange under the SFO, notwithstanding that the business conducted by the Relevant Company constitutes or might constitute competition with the business of our Group, provided that:

- (a) the shareholding of any one holder (and his/its close associate, if applicable) in the Relevant Company is more than that of the Controlled Person(s) and the Controlled Company(ies) in aggregate at any time;
- (b) the total number of the relevant Covenantors’ representatives on the board of directors of the Relevant Company is not significantly disproportionate with respect to his/its shareholding in the Relevant Company; and
- (c) the Covenantors and/or their respective close associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of the Relevant Company or otherwise participate in or be involved in the management of the Relevant Company.

### 2. New business opportunity

If any Covenantor and/or any Controlled Company is offered or becomes aware of any business opportunity which directly or indirectly engages in or owns a Restricted Business (the “**New Business Opportunity**”):

- (a) he/it shall within ten days notify our Company of such New Business Opportunity in writing and refer the same to our Company for consideration, and shall provide the relevant information to our Company in order to enable us to make an informed assessment of such opportunity; and
- (b) he/it shall not, and shall procure that his/its Controlled Person(s) or Controlled Company(ies) not to, invest or participate in any project or New Business Opportunity, unless such project or New Business Opportunity shall have been rejected by our Company and the principal terms of which the Covenantor or his/its Controlled Person(s) or Controlled Company(ies) invest or participate in are no more favourable than those made available to our Company.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

A Covenantor may only engage in the New Business Opportunity if (a) a notice is received by the Covenantor from our Company confirming that the New Business Opportunity is not accepted and/or does not constitute competition with the Restricted Business (the “**Non-acceptance Notice**”); or (b) the Non-acceptance Notice is not received by the Covenantor within 30 days after the proposal of the New Business Opportunity is received by our Company.

Any Director who has an actual or potential material interest in the New Business Opportunity shall abstain from attending (unless his attendance is specifically requested by the remaining non-interested Directors) and voting at, and shall not be counted towards the quorum for, any meeting or part of a meeting convened to consider such New Business Opportunity.

Our Board (including the independent non-executive Directors) will be responsible for reviewing and considering whether or not to take up a New Business Opportunity referred by a Covenantor or Controlled Company or whether or not the New Business Opportunity constitutes competition with the Restricted Business. The factors that will be taken into consideration by our Board in making the decision include whether it is in line with the overall interests of our Shareholders.

### **3. Corporate governance measures**

In order to resolve actual or potential conflicts of interests between our Company and our Controlling Shareholders and to ensure the performance of the above non-competition undertakings, the Covenantors will:

- (a) in case of any actual or potential conflict of interest, abstain from attending and voting at any meeting or part of any meeting convened to consider any New Business Opportunity, and shall not be counted towards the quorum for such meeting;
- (b) as required by our Company, provide all information necessary for our independent non-executive Directors to conduct annual review on the compliance with the terms of the Deed of Non-competition and the enforcement of it;
- (c) procure our Company to disclose to the public either in the annual report of our Company or issue an announcement in relation to any decision made by our independent non-executive Directors to pursue or decline the New Business Opportunity, together with the reason in case of decline;
- (d) disclose the decision(s) and related basis on matters reviewed by the independent non-executive Directors in relation to the Company’s compliance with the terms of the Deed of Non-competition and make a declaration in relation to the compliance with the terms of the Deed of Non-competition in the annual report of our Company, and ensure that the disclosure of information relating to compliance with the terms of the Deed of Non-competition and the enforcement of it are in accordance with the requirements of the GEM Listing Rules; and

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (e) that during the period when the Deed of Non-competition is in force, fully and effectually indemnify our Company and/or our subsidiaries against any loss, liability, damages, cost, fee and expense as a result of any breach on the part of such Covenantor of any statement, warranty or undertaking made under the Deed of Non-competition.

The Deed of Non-competition and the rights and obligations thereunder are conditional upon (a) the Stock Exchange granting the listing of, and the permission to deal in, the Shares; and (b) the Listing and dealings in the Shares on GEM taking place.

As the Covenantors have given non-competition undertakings in favour of our Company, and none of them have interests in other businesses that compete or may compete with the business of our Group, our Directors are of the view that we are capable of carrying on our Group's business independently of the Covenantors after the Listing.

## CONNECTED TRANSACTIONS

Prior to the Listing, we have entered into the following transactions with a connected person of our Company. Upon the Listing, these transactions will constitute continuing connected transactions under the GEM Listing Rules.

### CONNECTED PERSON

The relevant connected person with whom we entered into the continuing connected transactions is Sweater Garment (Huizhou), which is owned as to 100% by Sweater Garment (HK) Limited. Sweater Garment (HK) Limited is beneficially owned as to 60% by Mr. Lam. Therefore, Sweater Garment (Huizhou) is a subsidiary of a 30%-controlled company (as defined under the GEM Listing Rules) of Mr. Lam and our connected person under Rule 20.07(4) of the GEM Listing Rules. Mr. Huang and Mr. Huang Qingxi, being the brother and cousin of Mrs. Lam, respectively, are also our connected persons. Each of them holds 20% of the issued share capital of Sweater Garment (HK) Limited, respectively.

### CONTINUING CONNECTED TRANSACTIONS WHICH ARE SUBJECT TO THE REPORTING, ANNUAL REVIEW AND ANNOUNCEMENT REQUIREMENTS BUT EXEMPT FROM THE INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT

#### Background and principal terms

During the Track Record Period, we leased the following properties, being the factory and office of STL Garment Accessories and STL Apparel Accessories, from Sweater Garment (Huizhou) with particulars as follows:

Address	Tenant	Use of the property	Gross floor area under the current tenancy agreements (sq. m.)
1st, 2nd, 3rd and portion of the 5th Floor, No. 6 Taihao Road, Sandong Digital Industrial Park, Sandong Town, Huizhou City, Guangdong Province, PRC ("Property 1")	STL Garment Accessories	Factory and office	18,557
Portion of the 5th Floor, No. 6 Taihao Road, Sandong Digital Industrial Park, Sandong Town, Huizhou City, Guangdong Province, PRC ("Property 2")	STL Apparel Accessories	Office	1,006

On 1 January 2014, Sweater Garment (Huizhou) entered into a tenancy agreement with each of STL Garment Accessories and STL Apparel Accessories, respectively (collectively, the "2014 Tenancy Agreements"), pursuant to which Sweater Garment (Huizhou) agreed to lease to us Property 1 for a gross floor area of 16,368 sq. m. and Property 2 for a gross floor area of 1,006 sq. m. for a three-year term commencing on 1 January 2014 and ending on 31 December 2016 at a monthly rent of



## CONNECTED TRANSACTIONS

RMB258,160 and RMB15,835, respectively. Since the properties were newly refurbished, the monthly rents of Property 1 and Property 2 under the 2014 Tenancy Agreements were set at a premium to the then prevailing market rent of comparable properties in similar location.

By two renewal agreements both dated 1 January 2016, the 2014 Tenancy Agreements were superseded and the lease of Property 1 and Property 2 was renewed for a three-year term commencing on 1 January 2016 and ending on 31 December 2018 for a monthly rent of RMB210,686 for Property 1 for a gross floor area of 18,234 sq. m. and RMB11,662 for Property 2 for a gross floor area of 1,006 sq. m., respectively (each a “**2016 Renewal Agreement**” and collectively the “**2016 Renewal Agreements**”). The monthly rent payable for Property 1 and Property 2 was adjusted downwards having regard to the then prevailing market rent of comparable properties in similar location.

By a further renewal agreement in respect of Property 1 dated 1 August 2016 (the “**Mid-2016 Renewal Agreement for Property 1**”), the 2016 Renewal Agreement in respect of Property 1 was superseded and the lease of Property 1 was renewed for a 3-year term commencing on 1 August 2016 and ending on 31 July 2019 for a monthly rent of RMB215,531. The monthly rent payable for Property 1 was adjusted upwards due to an adjustment to the gross floor area of Property 1 from 18,234 sq. m. to 18,557 sq. m., while the average rent per sq.m. remained roughly the same.

On 1 March 2017, Sweater Garment (Huizhou) entered into a new tenancy agreement with STL Garment Accessories and STL Apparel Accessories, respectively (collectively, the “**Current Tenancy Agreements**”). Pursuant to the Current Tenancy Agreements, the Mid-2016 Renewal Agreement for Property 1 and the 2016 Renewal Agreement in respect of Property 2 were superseded and the lease of Property 1 and Property 2 was renewed for a three-year term commencing on 1 January 2017 and ending on 31 December 2019 with a monthly rent of RMB215,531 for Property 1 for a gross floor area of 18,557 sq. m. and RMB11,662 for Property 2 for a gross floor area of 1,006 sq. m., respectively.

### **Historical transaction amounts, proposed annual caps and basis of determination**

The aggregate amounts paid by STL Garment Accessories and STL Apparel Accessories for leasing Property 1 and Property 2 during the Track Record Period and the expected aggregate maximum annual amount payable by STL Garment Accessories and STL Apparel Accessories pursuant to the Current Tenancy Agreements are set out below:

	Historical transaction amount		Proposed annual cap Year ending 31 December		
	FY2015	FY2016	2017	2018	2019
Rent payable in relation to Property 1	RMB3,097,920	RMB2,552,457	RMB2,586,372	RMB2,586,372	RMB2,586,372
Rent payable in relation to Property 2	RMB190,020	RMB139,944	RMB139,944	RMB139,944	RMB139,944

The rent payable for Property 1 and Property 2 decreased in FY2016, which was mainly attributable to the downward adjustment to the monthly rent payable under 2016 Renewal Agreements, having regard to the then prevailing market rent of comparable properties in similar location.

## CONNECTED TRANSACTIONS

The proposed annual caps with respect to the Current Tenancy Agreements were determined based on the monthly rent agreed thereunder. Our property valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, has reviewed the Current Tenancy Agreements and confirmed that the terms therein are comparable to the prevailing market terms and the rent payable by our Group under the Current Tenancy Agreements is fair and reasonable and consistent with the prevailing market rent of comparable properties in similar location.

Upon Listing, the Current Tenancy Agreements will constitute continuing connected transactions of our Company under the GEM Listing Rules. Under the Current Tenancy Agreements, since each of the relevant percentage ratios calculated for the purpose of Chapter 20 of the GEM Listing Rules is less than 5%, the Current Tenancy Agreements are subject to the reporting, annual review and announcement requirements but exempt from the independent shareholders' approval requirement under the GEM Listing Rules.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver pursuant to Rule 20.103 of the GEM Listing Rules from strict compliance with the announcement requirement under Rule 20.33 of the GEM Listing Rules in respect of the continuing connected transactions in respect of the Current Tenancy Agreements subject to the following conditions:

- (a) the aggregate value of the rent payable under the Current Tenancy Agreements for the three years ending 31 December 2019 will not exceed the annual cap set forth above; and
- (b) save for the announcement requirement of which the waiver is sought, we will comply with all requirements under Chapter 20 of the GEM Listing Rules.

### **DIRECTORS' VIEW**

Our Directors, including our independent non-executive Directors, consider that the Current Tenancy Agreements and the annual cap set forth above are fair and reasonable, and that they have been entered into in the ordinary and usual course of our business, on normal commercial terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

### **THE SOLE SPONSOR'S VIEW**

The Sole Sponsor is of the view that the Current Tenancy Agreements and the annual cap set forth above are fair and reasonable, and they have been entered into in the ordinary and usual course of our business, on normal commercial terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

## DIRECTORS AND SENIOR MANAGEMENT

### SUMMARY OF DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Present Position	Date of Appointment as Director/Senior Management	Date of joining our Group	Roles and Responsibilities	Relationship with other Director(s) and/or Senior Management
<b>Directors</b>						
Mr. Lam Cheung Chuen (林長泉先生)	63	Chairman of our Board and non-executive Director	22 January 2016	December 2001	Overseeing the overall corporate development and strategic planning of our Group	Father of Mr. Gabi Lam and Mr. Jeffrey Lam
Mr. Lam Kai Yuen (林啟源先生)	34	Executive Director and chief executive officer of our Group	22 January 2016	March 2006	Overseeing the overall strategic planning, business development and day-to-day management of our Group's operations	Son of Mr. Lam and elder brother of Mr. Jeffrey Lam
Mr. Lam Kai Cheong (林啟昌先生)	27	Executive Director	22 January 2016	April 2007	Overseeing the overall strategic planning, business development and day-to-day management of our Group's operations	Son of Mr. Lam and younger brother of Mr. Gabi Lam
Mr. Moy Yee Wo, Matthew (梅以和先生)	38	Independent non-executive Director	24 June 2017	June 2017	As the chairman of the nomination committee and a member of the audit committee and the remuneration committee	Nil
Mrs. So Chan Wai Hang (蘇陳偉香女士), also known as Ms. Chan Wai Hang (陳偉香女士) (BBS)	67	Independent non-executive Director	24 June 2017	June 2017	As the chairlady of the remuneration committee and a member of the audit committee and the nomination committee	Nil
Mr. Ho Yuk Hay (何旭晞先生)	38	Independent non-executive Director	24 June 2017	June 2017	As the chairman of the audit committee and a member of the nomination committee and the remuneration committee	Nil
<b>Senior Management</b>						
Ms. Fok Wai Man (霍惠敏女士)	50	Sales director of our Group	1 September 2016	September 2016	Overseeing the sales and marketing department of our Group	Nil
Mr. Chan Fei Fei (陳非非先生)	35	Financial controller of our Group	1 September 2016	September 2016	Overseeing the financial management of our Group	Nil
Mr. Yan Wenxin (顏文新先生)	43	Factory manager of STL Garment Accessories	24 November 2015	November 2015	Overseeing the factory operations and management of STL Garment Accessories	Nil

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

Our Board consists of six Directors, comprising two executive Directors, one non-executive Director and three independent non-executive Directors.

#### Chairman and non-executive Director

##### *Mr. Lam Cheung Chuen (林長泉先生), aged 63*

Mr. Lam is a founder of STL Garment Accessories and STL Apparel Accessories. He is one of our Controlling Shareholders. He is the father of Mr. Gabi Lam and Mr. Jeffrey Lam, our executive Directors. He was appointed as our Director on 22 January 2016 and was re-designated as our non-executive Director on 26 January 2017. He also serves as the chairman of our Board. He is responsible for overseeing the overall corporate development and strategic planning of our Group.

Mr. Lam completed his primary school education in the PRC in July 1966 and was conferred Honorary University Fellowship of Hong Kong Baptist University in September 2015. Mr. Lam has over 24 years of experience in the garment accessories manufacturing industry. Since the establishment of STL Garment Accessories in December 2001 and until Mr. Gabi Lam joined in March 2006 and took up the management of our Group in August 2006, Mr. Lam had overseen the day-to-day management of STL Garment Accessories. Mr. Lam currently serves as a director of all of the subsidiaries of our Company, namely New Forest, Smart Trend, STL Garment Accessories and STL Apparel Accessories.

Mr. Lam has been an independent non-executive director of Ten Pao Group Holdings Limited (Stock code: 1979) since November 2015. Mr. Lam was a special committee member of the 11th session of and is a member of the 12th session of Huizhou City Committee of Guangdong Province of the Chinese People's Political Consultative Conference (中國人民政治協商會議廣東省惠州市委員會).

Mr. Lam holds a number of social titles including the president of the 6th council of Huizhou City Huicheng District Foreign Investment Enterprise Association (惠州市惠城區外商投資企業協會), the vice president of the 6th council of Huizhou City Foreign Investment Enterprise Association (惠州市外商投資企業協會), a chairman of the Huizhou Division of the Federation of Hong Kong Industries of Pearl River Delta Council\* (香港工業總會珠三角工業協會), the director of the Hong Kong Shine Tak Foundation (香港善德基金會) and the permanent honorary chairman of Hong Kong Baptist University Foundation (香港浸會大學基金).

#### Executive Directors

##### *Mr. Lam Kai Yuen (林啟源先生), aged 34*

Mr. Gabi Lam was appointed as our Director on 22 January 2016 and was re-designated as our executive Director on 26 January 2017. He is responsible for overseeing the overall strategic planning, business development and day-to-day management of our Group's operations.

Mr. Gabi Lam obtained a bachelor's degree of business in management with distinction from the Queensland University of Technology in October 2004. He then obtained a master's degree of business in entrepreneurship from the University of Queensland in December 2005. Mr. Gabi Lam has over 10 years of experience in the garment accessories manufacturing industry since he joined our Group in

## DIRECTORS AND SENIOR MANAGEMENT

March 2006. He was then appointed as the general manager of STL Garment Accessories and STL Apparel Accessories in August 2006, being responsible for overseeing the factory operations of these companies, and gradually took up the management of our Group from Mr. Lam.

Mr. Gabi Lam currently serves as a director of all of the subsidiaries of our Company, namely New Forest, Smart Trend, STL Garment Accessories and STL Apparel Accessories. He is also the chief executive officer of our Group. Mr. Gabi Lam is the son of Mr. Lam and the elder brother of Mr. Jeffrey Lam.

***Mr. Lam Kai Cheong (林啟昌先生), aged 27***

Mr. Jeffrey Lam was appointed as our Director on 22 January 2016 and was re-designated as our executive Director on 26 January 2017. He is responsible for overseeing the overall strategic planning, business development and day-to-day management of our Group's operations.

Mr. Jeffrey Lam graduated from the University of Bath with a bachelor's degree of science in accounting and finance in June 2012. Mr. Jeffrey Lam has around 4 years of experience in the garment accessories manufacturing industry. He was appointed as director of STL Apparel Accessories in April 2007 and joined STL Garment Accessories in August 2012 as general manager assistant, assisting Mr. Gabi Lam in overseeing the factory operations of these companies.

Mr. Jeffrey Lam currently serves as a director of three subsidiaries of our Company, namely Smart Trend, STL Garment Accessories and STL Apparel Accessories. He is also the accounting manager of Smart Trend. He is the son of Mr. Lam and the younger brother of Mr. Gabi Lam.

### **Independent non-executive Directors**

***Mr. Moy Yee Wo, Matthew (梅以和先生), aged 38***

Mr. Moy Yee Wo, Matthew was appointed as our independent non-executive Director on 24 June 2017. He is the chairman of our nomination committee and a member of our audit committee and remuneration committee.

Mr. Moy graduated from the Hong Kong University of Science and Technology with a bachelor's degree of business administration in accounting in November 2001 and a master's degree of business administration in April 2008. He has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since July 2005.

Mr. Moy has over 10 years of experience in various sections of the finance industry including audit, corporate finance and asset management. Prior to joining our Group, Mr. Moy worked for Deloitte Touche Tohmatsu from September 2001 to July 2006, and his last position held was senior accountant II in the audit department. He then worked for UBS Securities Co. Limited as an associate from June 2008 to October 2008, and participated in a telecommunication restructuring project. From October 2008 to April 2009, he worked for Business Development Asia (HK) Limited as an associate and participated in various merger and acquisition transactions. He also worked as a type 9 (asset management) licensed representative in VL Asset Management Limited from July 2011 to August 2012, managing an equity portfolio. Since August 2012, he has been the company secretary and chief financial officer of China

## DIRECTORS AND SENIOR MANAGEMENT

Silver Group Limited, a company listed on the Stock Exchange (stock code: 815). Since 22 February 2017, Mr. Moy has also been an independent non-executive director of Chi Ho Development Holdings Limited, a company listed on the Stock Exchange (stock code: 8423) since March 2017.

**Mrs. So Chan Wai Hang (蘇陳偉香女士), also known as Ms. Chan Wai Hang (陳偉香女士), BBS, aged 67**

Mrs. So Chan Wai Hang was appointed as our independent non-executive Director on 24 June 2017. She is the chairlady of our remuneration committee and a member of our audit committee and nomination committee.

Mrs. So completed her secondary education in Hong Kong in July 1967 and was conferred Honorary University Fellowship of Hong Kong Baptist University in September 2016. She has extensive experience in the manufacturing industry and has been engaged in such business for over 36 years. She has been the managing director of Yue Wing Cheong Manufactory Limited, which principally engages in the business of manufacturing handbags, since November 1980, during which she has been responsible for the overall management and strategic development of the company. She has also been the vice chairlady of Winnie Sanitary Product Limited since February 2013 and the vice chairlady of Su's Dongguan Sanitary Product Limited since October 2013, both of which principally engage in the business of manufacturing sanitary products and she has been responsible for the overall management and strategic development of these companies. Mrs. So was awarded Bronze Bauhinia Star by the Government of Hong Kong on 1 July 2015.

**Mr. Ho Yuk Hay (何旭晞先生), aged 38**

Mr. Ho Yuk Hay was appointed as our independent non-executive Director on 24 June 2017. He is the chairman of our audit committee and a member of our remuneration committee and nomination committee.

Mr. Ho graduated from the Hong Kong Polytechnic University with a bachelor's degree of arts in accountancy in November 2001 and a master's degree in corporate governance in October 2012. He has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since January 2005. He has also been associate of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators since February 2013.

Mr. Ho has over 15 years of experience in auditing and accounting. He worked for Deloitte Touche Tohmatsu from September 2001 to April 2011, and his last position held was senior manager in the audit department. He then worked for Sino Splendid Holdings Limited (formerly known as HONGKONG.COM CORPORATION and China.com Inc.), a company listed on the Stock Exchange (stock code: 8006), as financial controller from April 2011 to September 2012 and as the chief financial officer from September 2012 to October 2015. He also worked for Sinoref Holdings Limited (now known as Cybernaut International Holdings Company Limited), a company listed on the Stock Exchange (stock code: 1020), as executive director from October 2013 to October 2014 and as company secretary from February 2014 to January 2015. He has been the financial controller of GCL New Energy Holdings Limited, a company listed on the Stock Exchange (stock code: 451), since October 2015.

## DIRECTORS AND SENIOR MANAGEMENT

### DISCLOSURE REQUIRED UNDER RULE 17.50(2) OF THE GEM LISTING RULES

Our directors were directors, supervisors or managers (as applicable) of the following companies which were incorporated in Hong Kong or PRC prior to their respective dissolution. Our directors confirmed that the companies were solvent and inactive at the time of their dissolution and that their dissolution had not resulted in any liability or obligation against them. The following are details of the aforementioned dissolved companies:

Relevant Director	Name of Company	Places of incorporation	Principal business activity prior to cessation of business	Date of dissolution	Means of dissolution
Mr. Lam	Sun Tin Lun Label Weaving and Printing Factory Limited (新天倫商標織印廠有限公司)	Hong Kong	Dormant	12 April 2002	Deregistration
Mr. Lam	Cheer Rich International Limited (順彩國際有限公司)	Hong Kong	Dormant	2 August 2002	Deregistration
Mr. Lam	Famebish Development Limited (爵栢發展有限公司)	Hong Kong	Trading of garment	8 August 2003	Deregistration
Mr. Lam	蘇州工業園區爵栢服飾有限公司蘇州分公司	PRC	Garment manufacturing	12 May 2011	Deregistration
Mr. Lam	江蘇爵栢織造有限公司	PRC	Provision of knitted garment accessories and dying of knitted garments	27 February 2015	Deregistration
Mr. Lam	新天倫農業生物科技(惠州)有限公司	PRC	Dormant	18 October 2016	Deregistration
Mr. Lam and Mr. Gabi Lam	惠安永標服飾有限公司	PRC	Garment manufacturing	12 July 2013	Deregistration



## DIRECTORS AND SENIOR MANAGEMENT

Relevant Director	Name of Company	Places of incorporation	Principal business activity prior to cessation of business	Date of dissolution	Means of dissolution
Mr. Lam, Mr. Gabi Lam and Mr. Jeffrey Lam	惠州市獎門人農特產食品有限公司	PRC	Food manufacturing	28 April 2016	Deregistration
Mr. Lam, Mr. Gabi Lam and Mr. Jeffrey Lam	肽能健生物科技(惠州)有限公司	PRC	Dormant	9 August 2016	Deregistration
Mrs. So Chan Wai Hang ( <i>BBS</i> )	Fortune Season Limited (京運有限公司)	Hong Kong	Dormant	15 February 2002	Striking off
Mrs. So Chan Wai Hang ( <i>BBS</i> )	Longrich (H.K.) Limited (東裕(香港)有限公司)	Hong Kong	Dormant	8 November 2002	Deregistration
Mrs. So Chan Wai Hang ( <i>BBS</i> )	S. E. A. Company Limited (陳徐王有限公司)	Hong Kong	Dormant	7 July 2006	Deregistration
Mrs. So Chan Wai Hang ( <i>BBS</i> )	Keep Profit Limited (榮興有限公司)	Hong Kong	Dormant	5 May 2017	Deregistration

Mr. Lam was a director of 青島新悅電腦商標織造有限公司, which was a company established in the PRC with its business licence revoked. As confirmed by Mr. Lam, (i) the company was solvent and inactive at the time of its business licence being revoked; (ii) the business licence of the company was revoked for its failure to attend to annual examination; and (iii) the company was planning to apply for its deregistration as at the Latest Practicable Date.

Mrs. So Chan Wai Hang (*BBS*), our independent non-executive Director, was a director of 瓊海利年地產發展有限公司 (Qiong Hai Li Nian Property Development Company Limited\*), which was a company established in the PRC with its business licence revoked. As confirmed by Mrs. So Chan Wai Hang (*BBS*), (i) the company was solvent and inactive at the time of its business licence being revoked; (ii) the business licence of the company was revoked for its failure to publish its annual report in accordance with the Interim Regulation on Enterprise Information (企業信息公示暫行條例), which was promulgated by the State Council on 7 August 2014 and became effective on 1 October 2014; and (iii) the company was planning to apply for its deregistration as at the Latest Practicable Date.

Save as disclosed in this section, each of our Directors has confirmed with respect to him/her that: (a) he/she has not held any current or past directorship in the last three years in any other listed company, the securities of which are listed on any securities market in Hong Kong or overseas; (b) he/she has not held other positions in our Company or any members of our Group as at the Latest Practicable Date; (c) he/she did not have any relationship with any other Directors, senior management, substantial Shareholders or Controlling Shareholders as at the Latest Practicable Date; (d) he/she does not have any other interest in our Shares within the meaning of Part XV of the SFO, save as disclosed in the paragraph headed “C. Further information about our Directors and substantial Shareholders — 1.



## DIRECTORS AND SENIOR MANAGEMENT

Disclosure of interests” in Appendix IV to this prospectus; (e) he/she does not have any other interest in any business which competes or is likely to compete, directly or indirectly, with us, which is discloseable under GEM Listing Rules; and (f) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no additional information relating to our Directors or senior management that was required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules and no other matter with respect to their appointments that needs to be brought to the attention of our Shareholders as at the Latest Practicable Date.

### SENIOR MANAGEMENT

**Ms. Fok Wai Man** (霍惠敏女士), aged 50, is the sales director of our Group and is primarily responsible for overseeing the sales and marketing department of our Group. Ms. Fok joined our Group on 1 September 2016. She completed secondary 5 studies at Bethel High School in July 1984. Ms. Fok has over 28 years of sales experience. She joined Mr. Lam’s then garment business, namely, Sun Tin Lun Label Weaving and Printing Factory, as a sales executive in March 1988. In July 1991, she left Sun Tin Lun Label Weaving and Printing Factory and joined another then business of Mr. Lam namely Sin Tin Lun (H.K.) Garment Accessories Company Limited until she left in September 2016 and assumed the current position in our Group. Her last position held in Sin Tin Lun (H.K.) Garment Accessories Company Limited was sales director.

**Mr. Chan Fei Fei** (陳非非先生), aged 35, is the financial controller of our Group and is primarily responsible for overseeing the financial management of our Group. Mr. Chan joined our Group on 1 September 2016. He graduated from the Hong Kong Polytechnic University with a bachelor’s degree of arts in accountancy in December 2005. He passed the third level in accounting examined by London Chamber of Commerce and Industry Examinations Board with credit in 2001. He has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since February 2009.

Mr. Chan has over 9 years of experience in auditing, accounting and financial management. Prior to joining our Group, he worked for Deloitte Touche Tohmatsu from August 2005 to December 2010, and his last position held was senior in the audit department. During the period between December 2010 and May 2011, he joined Casablanca International Limited as finance manager. From May 2011 to July 2012, he worked as financial controller of Interior Contract International Limited. He then worked as financial control director of Toneluck Industrial Limited from August 2012 to September 2014. From January 2015 to June 2015, he worked as finance manager of Sin Tin Lun (H.K.) Garment Accessories Company Limited.

**Mr. Yan Wenxin** (顏文新先生), aged 43, is the factory manager of STL Garment Accessories and is primarily responsible for overseeing the factory operations and management of STL Garment Accessories. Mr. Yan joined STL Garment Accessories as factory manager in November 2015. He graduated from Guangdong Publications Technician College\* (廣東省出版技工學校) in planography printing in July 1994.

Mr. Yan has over 21 years of experience in the printing industry and factory management. Prior to joining our Group, he worked for Shenzhen Nine Stars Printing And Packaging Group Co Ltd\* (深圳九星印刷包裝集團有限公司) from October 1994 to January 2003, and his last position held was head of engineering department. Between January 2003 and January 2004, he worked as manager of production

## DIRECTORS AND SENIOR MANAGEMENT

department for Guangzhou Shenglan Industrial Co., Ltd.\* (廣州市盛蘭印務有限公司). He then worked for DY Apparel (which was then named Sun Tin Lun Accessories (Huizhou) Company Limited\*) from December 2004 to November 2015, and his last position held was factory manager.

Each of the senior management has not held directorships in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas.

### COMPANY SECRETARY

Mr. Chan Fei Fei (陳非非先生) was appointed as the company secretary of our Company on 26 January 2017. For details of his background and experience, please refer to the paragraph headed “Senior management” in this section.

### COMPLIANCE OFFICER

Mr. Gabi Lam is the compliance officer of our Company. For details of his background and experience, please refer to the paragraph headed “Directors — Executive Directors” in this section.

### BOARD COMMITTEES

#### Audit committee

We established an audit committee with written terms of reference in compliance with Rule 5.29 of the GEM Listing Rules and paragraph C.3.3 of the Corporate Governance Code pursuant to a resolution of our Directors passed on 24 June 2017. The primary duties of our audit committee are, among other things, to make recommendations to our Board on the appointment, reappointment and removal of external auditor, monitor integrity of our financial statements, review significant financial reporting judgements contained in them, oversee our financial reporting, internal control, risk management systems and audit process and perform other duties and responsibilities assigned by our Board.

At present, our audit committee comprises Mr. Ho Yuk Hay, Mr. Moy Yee Wo, Matthew and Mrs. So Chan Wai Hang (*BBS*), all being independent non-executive Directors. Mr. Ho Yuk Hay is the chairman of our audit committee.

#### Remuneration committee

We established a remuneration committee on 24 June 2017 with written terms of reference in compliance with Rule 5.35 of the GEM Listing Rules and paragraph B.1.2 of the Corporate Governance Code. The primary duties of our remuneration committee are, among other things, to review and approve the management’s remuneration proposals, make recommendations to our Board on the remuneration package of our Directors and senior management and ensure none of our Directors or their associates is involved in deciding their own remuneration.

At present, our remuneration committee comprises Mrs. So Chan Wai Hang (*BBS*), Mr. Moy Yee Wo, Matthew and Mr. Ho Yuk Hay, all being our independent non-executive Directors. Mrs. So Chan Wai Hang (*BBS*) is the chairlady of our remuneration committee.

## DIRECTORS AND SENIOR MANAGEMENT

### Nomination committee

We established a remuneration committee on 24 June 2017 with written terms of reference in compliance with paragraph A.5.2 of the Corporate Governance Code. The primary duties of our nomination committee are, among other things, to review the structure, size and composition of our Board, select or make recommendations on the potential candidates nominated for directorships and assess the independence of the independent non-executive Directors.

At present, our nomination committee comprises Mr. Moy Yee Wo, Matthew, Mrs. So Chan Wai Hang (*BBS*) and Mr. Ho Yuk Hay, all being our independent non-executive Directors. Mr. Moy Yee Wo, Matthew is the chairman of our nomination committee.

### COMPLIANCE ADVISER

Our Company has appointed Alliance Capital Partners Limited as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules for the term commencing on the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date.

Pursuant to Rule 6A.23 of the GEM Listing Rules, we shall consult with and, if necessary, seek advice from our compliance adviser on a timely basis in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Listing in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of us under Rule 17.11 of the GEM Listing Rules.

### REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses related to their performance. We also reimburse them for expenses which are necessarily and reasonably incurred in relation to all business and affairs carried out by us from time to time or for providing services to us or executing their functions in relation to our business and operations. We regularly review and determine the remuneration and compensation package of our Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of our Directors and our performance.

After the Listing, our Directors and senior management may also receive options to be granted under the Share Option Scheme.

## **DIRECTORS AND SENIOR MANAGEMENT**

### **REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT**

During each of FY2015 and FY2016, the aggregate emoluments paid and benefits in kind granted by us to our Directors were approximately RMB360,000 and RMB584,000, respectively.

For FY2015 and FY2016, the aggregate remuneration including basic salaries, allowance, other benefits and contribution to retirement benefit scheme, paid to the five highest paid individuals (including our Directors) by our Group was approximately RMB1.0 million and RMB1.1 million, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid, or are payable, by us to our Directors and the five highest paid individuals in respect of each of FY2015 and FY2016.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) for the year ending 31 December 2017 will be approximately HK\$2.3 million. Upon completion of the Listing, our remuneration committee will make recommendations on the remuneration of our Directors taking into account the performance of our Directors and market standards and the remuneration will be subject to approval by our Shareholders. Accordingly, the historical remuneration to our Directors during the Track Record Period may not reflect the future levels of remuneration of our Directors. Details of the terms of the service agreements or letters of appointment are set out in the paragraph headed “C. Further information about our Directors and substantial Shareholders — 2. Particulars of Directors’ service agreements and letters of appointment” in Appendix IV to this prospectus.

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors or the five highest individuals as an inducement to join or upon joining us or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

For additional information on Directors’ remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to the Accountants’ Report set out in Appendix I to this prospectus.

### **SHARE OPTION SCHEME**

Our Company has conditionally adopted the Share Option Scheme. Further information on the Share Option Scheme is set forth in the paragraph headed “D. Share Option Scheme” in Appendix IV to this prospectus.

## SHARE CAPITAL

### SHARE CAPITAL

The tables below set forth information with respect to the share capital of our Company after completion of the Share Offer and the Capitalisation Issue.

<b>Authorised share capital:</b>	<i>HK\$</i>
<u>2,000,000,000</u> Shares of HK\$0.01 each	<u>20,000,000</u>

Without taking into account any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme, our Company's issued share capital immediately after completion of the Share Offer and the Capitalisation Issue will be as follows:

Shares	<i>HK\$</i>
100 Shares in issue as at the Latest Practicable Date	1
200,000,000 Shares to be issued pursuant to the Share Offer	2,000,000
<u>599,999,900</u> Shares to be issued pursuant to the Capitalisation Issue	<u>5,999,999</u>
<u>800,000,000</u> Total	<u>8,000,000</u>

### ASSUMPTIONS

The above tables assume that the Share Offer becomes unconditional and Shares are issued pursuant to the Share Offer. It takes no account of any Share that may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

### MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of at least 25% of the total number of issued Share in the hands of the public.

### RANKING

The Offer Shares are ordinary Shares and rank equally with all Shares currently in issue or to be issued and, in particular, will rank equally for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

### SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the paragraph headed "D. Share Option Scheme" in Appendix IV to this prospectus.

We did not have any outstanding share option, warrant, convertible instrument or similar right convertible into the Shares as at the Latest Practicable Date.

## SHARE CAPITAL

### GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares in aggregate not exceeding:

- (a) 20% of the total number of Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme); and
- (b) the aggregate number of issued Share which may be repurchased by our Company (if any) under the mandate to repurchase Shares referred to below.

Our Directors may, in addition to the Shares which they are authorised to issue under the general mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of the subscription rights attaching to any warrant of our Company, scrip dividends or similar arrangements or options providing for the allotment and issue of Shares in lieu of the whole or in any part of any cash dividends or options to be granted under the Share Option Scheme and any option scheme or similar arrangement for the time being adopted.

This general mandate to issue Shares will remain in effect until whichever is the earliest of:

- (a) the conclusion of our next annual general meeting; or
- (b) the date by which our next annual general meeting is required by the Articles or any applicable law to be held; or
- (c) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

Further details of this general mandate are set out in the paragraph headed “A. Further information about our Group — 6. Written resolutions of our sole Shareholder passed on 24 June 2017” in Appendix IV to this prospectus.

### GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all powers of our Company to repurchase, on the Stock Exchange and/or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose in accordance with applicable laws and requirements of the GEM Listing Rules (or of such other stock exchange), Shares in the number not exceeding 10% of the total number of Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme). A summary of the relevant GEM Listing Rules is set out in the paragraph headed “A. Further information about our Group — 7. Repurchase of the Shares” in Appendix IV to this prospectus.

## SHARE CAPITAL

This general mandate to repurchase Shares will remain in effect until whichever is the earliest of:

- (a) the conclusion of our next annual general meeting; or
- (b) the date by which our next annual general meeting is required by the Articles or any applicable law to be held; or
- (c) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

Further details of this repurchase mandate are set out in the paragraph headed “A. Further information about our Group — 7. Repurchase of the Shares” in Appendix IV to this prospectus.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

As a matter of the Companies Law, an exempted company is not required by law to hold any general meetings or class meeting. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in Appendix III to this prospectus.

## SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors or chief executive of our Company, immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme), the following persons will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who/which is expected, directly or indirectly, to be interested in 10% or more of the issued voting shares of any other member of our Group:

Person/corporation	Company concerned	Capacity/nature of interest	Number of Shares held immediately after completion of the Share Offer and the Capitalisation Issue <sup>(Note 1)</sup>	Percentage of interests in our Company immediately after completion of the Share Offer and the Capitalisation Issue
Neo Concept <i>(Note 2)</i>	Our Company	Beneficial owner	600,000,000 (L)	75%
Mr. Lam <sup>(Note 2)</sup>	Our Company	Interest in controlled corporation <i>(Note 2)</i>	600,000,000 (L)	75%
Mrs. Lam <sup>(Note 3)</sup>	Our Company	Interest of spouse <i>(Note 3)</i>	600,000,000 (L)	75%

*Notes:*

1. The letter “L” denotes a person’s/corporation’s “long position” (as defined under Part XV of the SFO) in the Shares.
2. Our Company will be owned as to 75% by Neo Concept immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme). Neo Concept is wholly and beneficially owned by Mr. Lam. Under the SFO, Mr. Lam is deemed to be interested in the same number of Shares held by Neo Concept.
3. Mrs. Lam is the spouse of Mr. Lam. Under the SFO, Mrs. Lam is deemed to be interested in the same number of Shares in which Mr. Lam is interested.

Save as disclosed above, our Directors are not aware of any person/corporation who/which will, immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme), have an interest or short position in the Shares or underlying Shares which fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which is expected, directly or indirectly, be interested in 10% or more of the issued voting shares of any other member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.



## SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

### **SIGNIFICANT SHAREHOLDERS**

Save as disclosed above, our Directors are not aware of any person who will be, immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme), entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of our Company and will therefore be regarded as our significant Shareholders.

## FINANCIAL INFORMATION

*You should read the following discussion and analysis in conjunction with our consolidated financial information and notes thereto set forth in the Accountants' Report included as Appendix I to this prospectus and our selected historical consolidated financial information and operating data included elsewhere in this prospectus. Our consolidated financial information has been prepared in accordance with HKFRSs issued by Hong Kong Institute of Certified Public Accountants. Our financial information and the discussion and analysis below assume that our current structure had been in existence throughout the Track Record Period. For further information in relation to our Group's structure, please refer to the section headed "History, development and Reorganisation" in this prospectus.*

*The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events and our financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. Please refer to the sections headed "Risk factors" and "Forward-looking statements" in this prospectus for discussions of those risks and uncertainties.*

*Our financial year begins from 1 January and ends on 31 December. All references to "FY2015" and "FY2016" mean the financial years ended 31 December 2015 and 31 December 2016, respectively.*

### OVERVIEW

We are an established labelling solution provider and a one-stop garment accessories manufacturer and supplier based in the PRC. Our products can be categorised into three main types being (i) printed products, (ii) woven labels and (iii) printed labels. We also source and sell other garment accessories, such as tapes, hanging tablets, string locks, leather badge, buttons and metal products to our customers in the PRC.

We had over 1,100 customers; and served over seven major garment brand companies and two sourcing companies contributing over 85% of our total revenue during the Track Record Period, which covered not less than 11 overseas brands, 11 PRC brands and four PRC and Hong Kong brands.

Our revenue for FY2016 was approximately RMB105.2 million, representing an increase of 10.0% as compared with the corresponding figure of approximately RMB95.6 million for FY2015. Our gross profit for FY2016 was approximately RMB39.6 million, representing an increase of 24.1% as compared with the corresponding figure of approximately RMB31.9 million for FY2015. Our profit after tax for FY2016 was approximately RMB9.6 million, representing an increase of 57.4% as compared with the corresponding figure of approximately RMB6.1 million for FY2015. For FY2016, we experienced revenue growth mainly due to (i) the increase in sales volume (in terms of units sold) slightly offset by decrease in average selling price per unit sold for our printed products and woven labels; (ii) the increase in both of sales volume and average selling price per unit sold for printed labels and (iii) the increase in sales by approximately RMB2.7 million to Customer F for FY2016 which was a new customer and became our second largest customer in that year.

## FINANCIAL INFORMATION

### FACTORS AFFECTING OUR GROUP'S RESULTS OF OPERATIONS

Our results of operations and financial performance are subject to the influence of numerous factors, including those set out below and in the section headed "Risk factors" in this prospectus:

#### **Market demand**

During the Track Record Period, our revenue was mainly generated from manufacturing, sourcing and selling garment accessories in the PRC. We expect that the PRC will continue to be our focused market. Accordingly, if the PRC experience any adverse economic, political or regulatory conditions due to events beyond our control, such as economic downturn, natural disasters, contagious disease outbreaks, terrorist attacks, or if the government adopts regulations that place restrictions or burdens on us or on our industry in general, our business, financial condition, results of operations and prospects may be material and adversely affected.

#### **Customer relationships and factors affecting our customers**

During the Track Record Period, we have not entered into long-term contracts with our customers, which from time to time place purchase orders with us. Hence, the volume of purchase orders from our customers may vary from time to time due to number of factors, including the financial and operational success of customers and factoring affecting consumer demand of our customers' production such as market environment in garment industry. It is also difficult for us to forecast future order quantities and our results of operations may fluctuate significantly in the future.

#### **Changes of material costs, direct labour costs and subcontracting costs**

Our material costs, subcontracting costs and direct labour costs represent a significant portion of our cost of sales. During the Track Record Period, our material costs amounted to approximately RMB29.8 million in FY2015 and RMB33.2 million in FY2016, accounted for 46.7% and 50.7% of our total cost of sales, respectively. Our direct labour costs amounted to approximately RMB16.4 million and RMB16.5 million in FY2015 and FY2016, which accounted for 25.8% and 25.1% of our total cost of sales, respectively, while subcontracting costs amounted to approximately RMB8.1 million and RMB3.7 million, which accounted for 12.8% and 5.6% of our total cost of sales in FY2015 and FY2016, respectively.

Our ability to control and manage such direct costs affects our profitability. If such direct costs substantially increase, we may incur additional costs. We may not be able to pass these additional costs to our customers, our profitability may be materially and adversely affected.

## FINANCIAL INFORMATION

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in (i) material costs, (ii) direct labour costs and (iii) subcontracting costs on our gross profit and profit before income tax for FY2015 and FY2016, assuming all other factors remain unchanged:

- (i) Change in material costs *(Note 1)*:

	<b>Impact on gross profit and profit before income tax</b>	
	<b>FY2015</b>	<b>FY2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
+11.7%	(3,482)	(3,887)
-11.7%	3,482	3,887

- (ii) Change in direct labour costs *(Note 2)*:

	<b>Impact on gross profit and profit before income tax</b>	
	<b>FY2015</b>	<b>FY2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
+12.2%	(2,004)	(2,007)
-12.2%	2,004	(2,007)

- (iii) Change in subcontracting costs *(Note 2)*:

	<b>Impact on gross profit and profit before income tax</b>	
	<b>FY2015</b>	<b>FY2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
+12.2%	(993)	(449)
-12.2%	993	449

*Notes:*

1. The extent of fluctuation was determined by reference to the percentage change of actual fluctuation of our material costs during the Track Record Period.
2. The extent of fluctuation was determined by reference to the CAGR of average yearly salary of related professionals in the garment accessories industry of 12.2% from 2011 to 2015 as stated in the F&S Report.

## FINANCIAL INFORMATION

### BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 22 January 2016 and became the holding company of our Group pursuant to the Reorganisation. Details of which are set out in the section headed “History, development and Reorganisation — Reorganisation” in this prospectus. The financial information of our Group has been prepared as if our Company had been the holding company of our Group throughout the Track Record Period.

### CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The discussion and analysis of our financial position and results of operations are based on the consolidated financial statements prepared using the significant accounting policies, estimates and judgements set forth in notes 3 and 4 of the Accountants’ Report as set out in Appendix I to this prospectus, which conform with the HKFRS.

Below is a summary of certain significant accounting policies that we believe are important to the presentation of our financial results and positions. We also have other accounting policies, estimates and judgements that we consider important, details of which are set forth in notes 3 and 4 of the Accountants’ Report as set out in Appendix I to this prospectus.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to our Group.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

#### Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land and building	5%
Leasehold improvements	10%
Machinery	10%–100%
Motor vehicles	20%
Office equipment	20%
Furnitures and fixtures	20%

## FINANCIAL INFORMATION

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Provision for trade receivables

Our management determines the provision for impairment of trade receivables based on the credit history of customers and the current market condition by business segment. Significant judgement is exercised on the assessment of the collectability of receivables from each customer. In making the judgement, management considers a wide range of factors such as results of follow-up procedures, customer payment trends including subsequent payments and customers' financial positions. If the financial conditions of the customers of our Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The final outcome of the recoverability of these receivables will impact the amount of impairment required.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sales.

## RESULTS OF OPERATIONS

The table below sets out our Group's consolidated statements of comprehensive income during the Track Record Period, which was derived from the Accountants' Report as set out in Appendix I to this prospectus:

	<b>FY2015</b>	<b>FY2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	95,609	105,199
Cost of sales	<u>(63,713)</u>	<u>(65,575)</u>
<b>Gross profit</b>	31,896	39,624
Other income and gains	138	1,371
Distribution and selling expenses	(5,602)	(5,036)
Administrative expenses	(17,736)	(18,319)
Listing expenses	<u>—</u>	<u>(2,294)</u>
<b>Profit before tax</b>	8,696	15,346
Income tax expense	<u>(2,582)</u>	<u>(5,715)</u>
<b>Profit and total comprehensive income for the year</b>	<u><u>6,114</u></u>	<u><u>9,631</u></u>

## FINANCIAL INFORMATION

### DESCRIPTION OF SELECTED ITEMS FROM CONSOLIDATED STATEMENTS OF PROFITS OR LOSS AND OTHER COMPREHENSIVE INCOME

#### Revenue

During the Track Record Period, our revenue was mainly generated from manufacturing, sourcing and selling garment accessories in the PRC. Our products can be categorised into three main types being (i) printed products, (ii) woven labels and (iii) printed labels. We also source and sell other garment accessories, such as tapes, hanging tablets, string locks, leather badge, buttons and metal products to our customers in the PRC.

For FY2015 and FY2016, we generated total revenue of approximately RMB95.6 million and RMB105.2 million, respectively.

A breakdown on revenue, sales volume, and average selling price of our Group by product types for FY2015 and FY2016 are summarised as below:

Product types	FY2015				FY2016			
	Revenue		Sales volume	Average selling price	Revenue		Sales volume	Average selling price
	<i>RMB'000</i>	<i>%</i>	<i>Units in thousands</i>	<i>RMB</i>	<i>RMB'000</i>	<i>%</i>	<i>Units in thousands</i>	<i>RMB</i>
Printed products	49,828	52.1	391,293	0.127	51,400	48.9	452,690	0.114
Woven labels	28,428	29.7	236,259	0.120	28,395	27.0	256,665	0.111
Printed labels	13,664	14.3	150,201	0.091	19,741	18.8	208,907	0.095
Others <sup>(Note)</sup>	3,689	3.9	N/A	N/A	5,663	5.3	N/A	N/A
<b>Total</b>	<b><u>95,609</u></b>	<b><u>100.0</u></b>			<b><u>105,199</u></b>	<b><u>100.0</u></b>		

*Note:* Others include tapes, hanging tablets, string locks, leather badges, buttons and metal products with different kind of measurement in units which cannot be aggregated.

Please refer to the paragraph headed “Period to period comparison of results of operations” in this section for a discussion of changes in our revenue during the Track Record Period.

## FINANCIAL INFORMATION

### Cost of sales

Our cost of sales primarily consists of material costs, direct labour costs, subcontracting costs, rental and rates, depreciation on machinery and utilities. During the Track Record Period, breakdown of our cost of sales were as follows:

	<b>FY2015</b>		<b>FY2016</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Material costs	29,759	46.7	33,226	50.7
Direct labour costs	16,425	25.8	16,451	25.1
Subcontracting costs	8,142	12.8	3,677	5.6
Rent and rates	3,288	5.2	2,692	4.1
Depreciation on machinery	1,067	1.7	2,656	4.1
Utilities	2,300	3.6	2,487	3.8
Others	<u>2,732</u>	<u>4.2</u>	<u>4,386</u>	<u>6.6</u>
	<u><u>63,713</u></u>	<u><u>100.0</u></u>	<u><u>65,575</u></u>	<u><u>100.0</u></u>

#### *Material costs*

The largest component of our cost of sales was material costs, which amounted to approximately RMB29.8 million and RMB33.2 million, representing 46.7% and 50.7% of our cost of sales for FY2015 and FY2016, respectively. Our material costs mainly represent purchase of our principal raw materials used in the production of our products which are paper, yarn and ribbons.

#### *Direct labour costs*

Direct labour costs mainly comprised salaries, wages, bonus and allowance provided for our workers who are directly involved in the production.

#### *Subcontracting costs*

The subcontracting costs were services fees we paid to our subcontractors for the provision of certain processes. As disclosed in section headed “Business — Our suppliers and subcontractors” in this prospectus, we outsourced certain processes (i) which we consider as more labour intensive, (ii) which involve technologies, machineries or licences that our Group did/does not have, (iii) to accommodate specific requirements of customers and (iv) for better time management and efficiency when required.

#### *Rent and rates*

Rent and rates mainly represented rental fee for leasing the factory and office of STL Garment Accessories and STL Apparel Accessories with Sweater Garment (Huizhou), which is our connected person. Upon the Listing, the lease of these properties will constitute continuing connected transactions under the GEM Listing Rules. For details, please refer to the section headed “Connected transactions” in the prospectus.



## FINANCIAL INFORMATION

### *Depreciation on machinery*

Depreciation represented depreciation charges in respect of our machinery which are directly being used in the production.

### *Utilities*

Utilities represented the electricity and water charges for our Group's production during the Track Record Period.

### *Others*

Others mainly consists of (i) other manufacturing overhead such as replacement of parts of machinery, repair and maintenance expenses and (ii) business tax.

Please refer to the paragraph headed "Period to period comparison of results of operations" in this section for a discussion of the material changes in the amount of our costs of sales during the Track Record Period.

### **Gross profit margin**

The table below set forth a breakdown of our Group's gross profit and gross profit margin during the Track Record Period by business segment:

#### **Product types**

	<b>FY2015</b>		<b>FY2016</b>	
	<b>Gross profit</b>	<b>Gross profit</b>	<b>Gross profit</b>	<b>Gross profit</b>
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Printed products	17,241	34.6	19,239	37.4
Woven labels	9,435	33.2	10,341	36.4
Printed labels	4,567	33.4	8,597	43.5
Others <sup>(Note)</sup>	653	17.7	1,447	25.6
	31,896	33.4	39,624	37.7

*Note:* Others include tapes, string locks, leather badge, buttons and metal products.

Gross profit for each product type is calculated as revenue minus cost of sales allocated to the type of product. Cost of sales of the product type mainly includes material costs, direct labour costs and subcontracting charges.

Please refer to the paragraph headed "Period to period comparison of results of operations" in this section for a discussion of the material changes in our Group's gross profit margin during the Track Record Period.

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### Other income and gains

The table below sets forth a breakdown of our Group's other income and gains by nature during the Track Record Period:

	<b>FY2015</b>	<b>FY2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Bank interest income	57	34
Government subsidies	33	1
Gain on disposal of properties, plant and equipment	—	996
Fair value gain from wealth management products	—	247
Others	48	93
	138	1,371

Our Group's other income and gains mainly comprises bank interest income, government subsidies, gain on disposal of properties, plant and equipment and fair value gain from wealth management products.

Please refer to the paragraph headed "Period to period comparison of results of operations" in this section for a discussion of the material changes in our Group's other income and gains during the Track Record Period.

### Distribution and selling expenses

The table below sets forth a breakdown of our Group's distribution and selling expenses by nature during the Track Record Period:

	<b>FY2015</b>		<b>FY2016</b>	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Transportation costs	2,281	40.7	2,704	53.7
Sales commissions	1,574	28.1	168	3.3
Staff costs	1,527	27.3	1,916	38.0
Advertising costs	136	2.4	109	2.2
Others	84	1.5	139	2.8
	5,602	100.0	5,036	100.0

Our Group's distribution and selling expenses mainly comprises transportation costs of our products, sales commissions, staff costs of our sales and marketing department.

Please refer to the paragraph headed "Period to period comparison of results of operations" in this section for a discussion of the material changes in our Group's distribution and selling expenses during the Track Record Period.

## FINANCIAL INFORMATION

### Administrative expenses

Administrative expenses mainly include staff costs and benefits, directors' remuneration and benefits, depreciation, office expenses, donations, entertainment expenses, rental and rates, and other administrative expenses. The following table sets out a breakdown of our administrative expenses for the years indicated:

	<b>FY2015</b>		<b>FY2016</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Staff costs and benefits (including director's remuneration)	10,518	59.3	11,642	63.5
Depreciation (excluding depreciation for plant and machinery)	2,364	13.3	2,404	13.2
Office expenses	1,660	9.4	2,134	11.6
Donations	780	4.4	292	1.6
Entertainment expenses	674	3.8	511	2.8
Rental and rates	455	2.6	70	0.4
Audit fee	285	1.6	277	1.5
Provision for doubtful debts	77	0.4	141	0.8
Others	<u>923</u>	<u>5.2</u>	<u>848</u>	<u>4.6</u>
	<u><u>17,736</u></u>	<u><u>100.0</u></u>	<u><u>18,319</u></u>	<u><u>100.0</u></u>

#### *Staff costs and benefits*

Staff costs in administrative expenses include directors' emoluments and management, administrative and operational staff costs. Staff costs increased over the Track Record Period mainly due to the increase in the headcount of administrative and operational staff in FY2016 as well as increase in salaries and discretionary bonus to certain staff.

Directors' remuneration and benefits include directors' salaries, allowance, bonus, mandatory provident fund contribution. For FY2015 and FY2016, directors' remuneration and benefits, which amounted to approximately RMB0.4 million and RMB0.6 million respectively, were recorded in administrative expenses under staff costs.

#### *Depreciation*

Depreciation in administrative expenses mainly represents depreciation of our leasehold improvement, office equipment and furnitures and fixtures.

#### *Office expenses*

Office expenses mainly include security fee and catering expenses.

Please refer to the paragraph headed "Period to period comparison of results of operations" in this section for a discussion of the material changes in our Group's administrative expenses during the Track Record Period.

## FINANCIAL INFORMATION

### Listing expenses

Listing expenses of approximately RMB\$2.3 million (equivalent to approximately HK\$2.7 million) was charged in FY2016 in connection with the professional fees incurred for the Listing. For details of our listing expenses, please refer to the paragraph headed “Listing expenses” in this section.

### Income tax expenses

Our Group is subject to the PRC Enterprise Income Tax (“PRC EIT”) at a rate of 25% and dividend withholding tax at a rate of 10% for the Track Record Period. The tax charge for the Track Record Period can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	<b>FY2015</b>	<b>FY2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	8,696	15,346
Tax at the PRC EIT rate of 25%	2,174	3,837
Tax effect of income not taxable for tax purpose	(16)	(8)
Tax effect of expenses not deductible for tax purpose	120	959
Deferred withholding tax on distributable profits of a subsidiary	—	1,000
Under (over) provision in prior years	304	(73)
Tax expense for the year	2,582	5,715

## PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

### FY2016 compared to FY2015

#### *Revenue*

Our revenue increased from approximately RMB95.6 million for FY2015 to approximately RMB105.2 million for FY2016, representing an increase of approximately RMB9.6 million or 10.0%. Such increase was mainly due to (i) the increase in sales volume (in terms of units sold) but slightly offset by decrease in average selling price per unit sold for our printed products and woven labels.

The increase in sales volume (in terms of unit sold) in FY2016 was mainly due to (i) the commencement of business with two new major customers, Customer F and Customer G, who started placing orders with us in FY2016 and contributed an aggregate revenue of approximately RMB5.0 million in FY2016, and became our second and fourth largest customer, respectively, in FY2016; and (ii) that more garment brand companies had been adopting the fast fashion model, which aimed to promote a faster changing of fashion style with a view of selling more quantity of products at a relatively lower price, and as a result, our customers had a higher demand of garment accessories in terms of quantity in FY2016. This also explained the reason for the decrease in average selling price per unit sold of our printed products and woven labels in FY2016 because our customers normally required a shorter production cycle under the fast fashion model and less complicated design of labels, which led to a lower average selling price.

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### *Cost of sales*

The cost of sales increased from approximately RMB63.7 million for FY2015 to approximately RMB65.6 million for FY2016, representing an increase of 3.0% or approximately RMB1.9 million.

Such increase was mainly due to (i) the increase in material costs from approximately RMB29.8 million for FY2015 to approximately RMB33.2 million for FY2016 which was in line with the increase in revenue during Track Record Period (ii) the increase in depreciation on machinery from approximately RMB1.1 million for FY2015 to approximately RMB2.7 million for FY2016 which was contributed by the purchase of machinery from related parties, and (iii) the increase in other cost of sales which was contributed by increase in replacement of parts of machinery, repair and maintenance expenses which was contributed by the increase in machinery in FY2016.

The increase was partly offset by the decrease of subcontracting costs from approximately RMB8.1 million for FY2015 to approximately RMB3.7 million for FY2016, which was mainly because our Group paid subcontracting fee of approximately RMB2.8 million to related parties as subcontractors for FY2015. No further subcontracting orders has been placed to the related parties for FY2016 which resulted to the decrease of subcontracting costs. The subcontracting orders our Group placed to the related parties for FY2015 were mainly printing process of printed products, which relied on the utilisation of printing machines which were highly automated. Therefore, our Group did not need significant increase in the number of headcount to operate the printed products production line acquired from the related parties in FY2016 and thus our direct labour costs remained at a similar level during the Track Record Period despite the increase in our revenue for FY2016. The average number of our direct labour remained stable at approximately 230 throughout the Track Record Period. Our Group was able to improve production efficiency through better manpower planning and thus production per labour hour was enhanced in FY2016.

Electricity and water consumption is minimal in our production process. Our utilities costs increased by approximately RMB187,000 or 8.1% in FY2016, which was in line with the increase in our revenue of approximately 10.0 % in FY2016.

### *Gross profit and gross profit margin*

Our gross profit increased from approximately RMB31.9 million for FY2015 to approximately RMB39.6 million for FY2016, representing an increase of approximately RMB7.7 million or 24.1%, which was in line with our increase in revenue during the Track Record Period.

Our gross profit margin increased from approximately 33.4% for FY2015 to approximately 37.7% for FY2016. Such increase was mainly due to overall increase in gross profit margin from all our product types, which was mainly due to (i) the increase in revenue which was contributed by the increase in sales volume (in terms of units sold) for our printed products, woven labels and printed labels and (ii) the decrease of subcontracting costs for FY2016 as explained above.

### *Other income*

Our other income increased from approximately RMB138,000 for FY2015 to approximately RMB1,371,000 for FY2016 as a result of a gain on disposal of a property located in the PRC, that was used as a director's quarters to Mr. Jeffery Lam, of approximately RMB1,039,000 in FY2016.

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### *Distribution and selling expenses*

Our distribution and selling expenses decreased by approximately RMB0.6 million, or 10.7%, from RMB5.6 million for FY2015 to approximately RMB5.0 million for FY2016. The decrease in distribution and selling expenses during the year was mainly attributable to decrease in sales commissions paid of approximately RMB1.4 million relating to direct procurement arrangement with Customer A, which was our largest customer for FY2015 and FY2016, starting from early FY2016; offsetting by the increase in transportation costs and staff costs of approximately RMB0.4 million and RMB0.4 million, respectively, in FY2016 due to increase in our revenue.

During the Track Record Period, we paid sales commission only to Customer A. Customer A is a sourcing company of a garment brand company; it placed orders with us both directly and through its designated garment manufacturers. The sales commission was calculated at around 5% of our aggregate sales amount to Customer A and its designated garment manufacturers in the respective financial year.

Since March 2016, Customer A adopted a new procurement arrangement and intended to gradually increase its direct procurement with us and at the same time reduce the procurement through the designated garment manufacturers. Given such simplified procurement arrangement, our Group agreed to adjust the selling price of our products sold to Customer A and its designated garment manufacturers and at the same time, Customer A ceased to charge the aforementioned sales commission from our Group, which resulted in the decrease of our sales commission paid in FY2016.

### *Administrative expenses*

Our administrative expenses increased from approximately RMB17.7 million for FY2015 to approximately RMB18.3 million for FY2016. Such increase was mainly due to the increase in staff costs and benefits (including directors' remuneration) by more than 10.5% from approximately RMB10.5 million for FY2015 to RMB11.6 million for FY2016 arising from the salary adjustments and discretionary bonus paid to certain staff members which partially offset by the decrease in donations from approximately RMB0.8 million for FY2015 to approximately RMB0.3 million for FY2016.

### *Income tax expenses*

Income tax expense of approximately RMB2.6 million and RMB5.7 million was recognised for FY2015 and FY2016, respectively. Our effective tax rate was approximately 29.7% and 37.2% for FY2015 and FY2016, respectively. Our Group is subject to the PRC Enterprise Income Tax at a rate of 25% during the Track Record Period and our effective tax rate of 37.2% for FY2016 was mainly because (i) the non-deductible listing expenses of approximately RMB2.3 million has been added back in determining income tax expenses and (ii) provision of deferred withholding tax of RMB1.0 million has been made in relation to distributable profits of a PRC subsidiary for FY2016.

### *Profit after tax and net profit margin*

As a result of the foregoing, our profit for FY2015 and FY2016 was approximately RMB6.1 million and RMB9.6 million respectively. Our net profit margin for FY2015 and FY2016 was approximately 6.4% and 9.2% respectively.

## FINANCIAL INFORMATION

### NET CURRENT ASSETS

We recorded net current assets of approximately RMB10.2 million, RMB24.4 million and RMB21.3 million as at 31 December 2015, 31 December 2016 and 30 April 2017, respectively. The table below sets forth our current assets and current liabilities as of the dates indicated:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>30 April</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Unaudited)
<b>Current assets</b>			
Inventories	2,257	3,187	3,352
Trade receivables	13,949	17,773	19,119
Prepayments and other receivables	2,441	2,011	822
Amount due from a related party	2,000	—	—
Amount due from ultimate holding company	—	11	11
Wealth management products designated at fair value through profit or loss	6,000	—	—
Bank balances and cash	<u>13,261</u>	<u>23,308</u>	<u>13,771</u>
	<u>39,908</u>	<u>46,290</u>	<u>37,075</u>
<b>Current liabilities</b>			
Trade payables	7,212	10,862	8,263
Other payables	4,739	4,060	4,493
Receipt in advance	687	566	—
Trade payables to related parties	2,221	—	—
Amounts due to related parties	12,775	—	—
Amounts due to directors	—	4,321	1,632
Tax payable	<u>2,073</u>	<u>2,103</u>	<u>1,403</u>
	<u>29,707</u>	<u>21,912</u>	<u>15,791</u>
<b>Net current assets</b>	<u>10,201</u>	<u>24,378</u>	<u>21,284</u>

Our net current assets increased by approximately RMB14.2 million from approximately RMB10.2 million as at 31 December 2015 to approximately RMB24.4 million as at 31 December 2016 primarily due to:

- (i) an increase in trade receivables of approximately RMB3.8 million as a result of our increased sales during FY2016; and

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- (ii) an increase in bank balances and cash of approximately RMB10.0 million mainly resulting from the net effect of (a) net cash generated from operating activities of approximately RMB8.7 million; and (b) proceeds from the disposal of wealth management products of approximately RMB6.2 million.

which were partially offset by repayments to, net of advances from and repayment from, related parties and directors of approximately RMB6.4 million.

### DESCRIPTION OF SELECTED ITEMS OF CONSOLIDATED BALANCE SHEETS

Further discussion of the fluctuation in the key components of our net current assets are set forth in the following paragraphs.

#### Property, plant and equipment

Property, plant and equipment of our Group represent buildings, leasehold improvements, machinery, motor vehicles, office equipment, furnitures and fixtures, construction in progress. The following table set forth the carrying values of our property, plant and equipment as of the dates indicated:

	<b>As at 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Leasehold land and building	2,748	—
Leasehold improvements	8,884	7,656
Machinery	7,493	11,263
Motor vehicles	879	688
Office equipment	1,849	1,196
Furnitures and fixtures	353	179
 Total	 22,206	 20,982

The decrease in our carrying amount of leasehold land and building as at 31 December 2016 was mainly due to the disposal of a property to Mr. Jeffrey Lam in September 2016. For details, please refer to Note 29 of the Accountants' Report in Appendix I to this prospectus.

Our carrying amount of machinery increased to approximately RMB11.3 million as at 31 December 2016 and was mainly caused by the purchase of certain printing machines and weaving machines from DY Apparel, DY Weaving and Suzhou Duoyue Garment in FY2016. For further details, please refer to the paragraph headed "Related Party Transactions" in this section.

The overall carrying values of our property, plant and equipment as at 31 December 2016 was mainly due to the decrease in our carrying amount of leasehold land and building and the depreciation charge recognised in FY2016 which was partly offset by the increase in our machinery in FY2016.



## FINANCIAL INFORMATION

### Inventories

Our inventories principally represent (i) raw materials which are mainly paper, yarn and ribbon; (ii) work in progress and (iii) finished goods which are products ready for sale.

As at 31 December 2015 and 31 December 2016, our inventories represented 5.7% and 6.9% of our current assets, respectively. The following table sets forth our ending inventory balances as of the dates indicated:

	<b>As at 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	1,485	2,352
Work in progress	297	343
Finished goods	475	492
	2,257	3,187
Inventory turnover days ( <i>Note</i> )	8.6 days	11.1 days

*Note:* Inventory turnover days is calculated based on ending inventory balances for the year divided by revenue for the year and multiplied by 365 days.

Our inventories increased by 39.1% from approximately RMB2.3 million as at 31 December 2015 to approximately RMB3.2 million as at 31 December 2016. For FY2015 and FY2016, our inventories turnover days increased from approximately 8.6 days to 11.1 days, respectively. The increase in inventory was mainly due to stock up of raw materials for our productions to meet the increasing demand of our garment accessories products.

We review our inventory levels to identify slow moving inventory or obsolescence on monthly basis. Allowance is made against when the net realisable value of inventories falls below the cost or any of the inventories is identified obsolete. Provision for impairment of inventories of approximately RMB101,000 and RMB8,000 were recorded as at 31 December 2015 and 31 December 2016, respectively.

Among the inventory of approximately RMB3.2 million as at 31 December 2016, approximately RMB3.0 million, representing 93.8% of which, had been subsequently utilised as at the Latest Practicable Date.

## FINANCIAL INFORMATION

### Trade and other receivables and prepayments

Our Group's trade and other receivables and prepayments as at 31 December 2015 and 31 December 2016 amounted to approximately RMB16.4 million and RMB19.8 million, respectively, details of which are set out below:

	<b>As at 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	14,026	17,991
Less: allowance for doubtful debts	<u>(77)</u>	<u>(218)</u>
	<u>13,949</u>	<u>17,773</u>
Other receivables	2,271	194
Prepayment	170	1,025
Deferred listing expense	<u>—</u>	<u>792</u>
	<u>2,441</u>	<u>2,011</u>
<b>Total trade and other receivables and prepayments</b>	<b><u><u>16,390</u></u></b>	<b><u><u>19,784</u></u></b>

#### *Trade receivables*

Our trade receivables balance, net of allowance for doubtful debts, was approximately RMB13.9 million and RMB17.8 million as at 31 December 2015 and 31 December 2016 respectively.

The following table sets forth the ageing analysis of our trade receivables, net of allowance for doubtful debts, bases on invoice date as of the dates indicated:

	<b>As at 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	12,329	16,181
91–180 days	1,253	908
181–360 days	<u>367</u>	<u>684</u>
	<u><u>13,949</u></u>	<u><u>17,773</u></u>

## FINANCIAL INFORMATION

The following table sets forth our trade receivables turnover days for the years indicated:

	<b>FY2015</b>	<b>FY2016</b>
Trade receivables turnover days <i>(note)</i>	<u>53.3 days</u>	<u>61.7 days</u>

*Note:* Trade receivables turnover days is calculated based on ending balance of trade receivables (net of allowance for doubtful debts) for the year, divided by revenue for the year, then multiplied by 365 days.

For FY2015 and FY2016, our trade receivables turnover days were approximately 53.3 days and 61.7 days respectively. The increase in trade receivables turnover days was mainly due to an increase in our trade receivables as at 31 December 2016, which was mainly because our Group achieved a higher revenue of approximately RMB20.8 million for the two months ended 31 December 2016 as compared to that of approximately RMB18.4 million for the same period in 2015.

We generally offer credit terms to customers ranging from 30 to 90 days, following our issue of invoice. As at 31 December 2015 and 31 December 2016, trade receivables of approximately RMB3.2 million and RMB3.1 million, respectively, were past due but not impaired. Based on past experience, we believe that no impairment allowance is required as there has not been a significant change in credit quality and the balances are still recoverable based on historical experience. As at the Latest Practicable Date, approximately RMB14.3 million or 80.3% of our trade receivables as at 31 December 2016 have been settled.

Our Group has provided fully for all receivables over 360 days because, based on historical experience, such receivables are generally not recoverable. Our Group has recognised the impairment losses on trade receivables of approximately RMB77,000 and RMB141,000 for FY2015 and FY2016, respectively.

During the Track Record Period, our Group did not write off any trade receivables.

### *Prepayments and other receivables*

Prepayments and other receivables mainly represent utility deposits, advance to a third party, prepayments to suppliers and deferred listing expense. As at 31 December 2015, our prepayments and other receivables mainly represented approximately RMB2.0 million due from a third party, in which the brother of sister in law of Mr. Lam has equity interest. This entire amount has been settled during FY2016.

As at 31 December 2016, our prepayments and other receivables mainly represented prepayments to our suppliers of approximately RMB0.5 million and deferred listing expense of approximately RMB0.8 million.

## FINANCIAL INFORMATION

### Amounts due from (to), prepayment to and trade payables to related parties

The following table sets forth the amounts due from (to), prepayment to and trade payables to related parties as of the dates indicated:

	<b>As at 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Amount due from 惠州市獎門人飲食文化有限公司 (Note 1)	2,000	—
Amount due to related parties		
— DY Weaving (Note 2)	3,655	—
— DY Apparel (Note 2)	9,120	—
	12,775	—
Prepayment to Suzhou Duoyue Garment (Note 3)	2,295	—
Trade payables to related parties		
— DY Weaving (Note 4)	330	—
— DY Apparel (Note 4)	1,528	—
— Suzhou Duoyue Garment (Note 4)	363	—
	2,221	—

*Note:*

1. The amount is unsecured, non-trade nature, interest-free and recoverable on demand. Mr. Lam has beneficial interests in this company. This amount has been fully settled in FY2016.
2. The amounts are unsecured, non-trade nature, interest-free and repayable on demand. Mr. Lam had beneficial interests in these companies and ceased to have any interests upon disposal of his entire interests in these companies to Mr. Huang on 26 May 2016. These amounts have been fully settled in FY2016
3. The amount represented the prepayment for purchase of property, plant and equipment to a related party. Mr. Lam had beneficial interest in this company and ceased to have any interest in this company upon disposal of his entire interest to Mr. Huang on 22 February 2016. As at 31 December 2016, there was no prepayment to this company.
4. The amounts are unsecured, interest-free and repayable within 30 days. The amounts have been fully settled in FY2016.

### Amounts due to directors

As at 31 December 2016, the amounts represented the advances from Mr. Lam and Mr. Gabi Lam of approximately RMB0.3 million and RMB4.0 million, respectively.

As at 30 April 2017, the amounts represented the advances from Mr. Lam of approximately RMB1.6 million.

The aforesaid amounts due to directors represented the advances from Mr. Lam and Mr. Gabi Lam for the purpose of settling the Listing expenses.

## FINANCIAL INFORMATION

The aforesaid amounts are unsecured, non-trade nature, interest-free and repayable on demand, and will be settled by internal working capital before Listing.

### **Wealth management products designated at fair value through profit or loss**

As at 31 December 2015, we had wealth management products in hand in amount of RMB6 million. The entire wealth management products were redeemed during FY2016.

The aforesaid wealth management products are issued by Bank of China and China Construction Bank in which the principal amount and investment return are unsecured, unguaranteed and carry at a variable rate of return based on the performance of underlying investment portfolio.

According to the documents provided by Bank of China, the wealth management product was classified as medium to low risk level with high liquidity, suggesting that the risk of losing the principal was low despite that there was uncertainty on the rate of actual return. The investment could be redeemed by us at any time. The indicative expected annualised rate of return was ranged from 2.1% to 4.0% subject to the length of holding period. The underlying investment portfolio may contain debt assets such as sovereign bonds, financial bonds, central bank bills, corporate bonds with high credit rating, short term financing bonds and other financial instruments with low risk and high liquidity, etc.

According to the documents provided by China Construction Bank, the wealth management product was classified as medium risk level suggesting that the risk of losing the principal was low despite the fact that there was uncertainty on the rate of actual return. The investment could be redeemed by us at any time. The indicative expected annualised rate of return was ranged from 1.8% to 3.51% subject to the length of holding period. The underlying investment portfolio may contain equity and debt assets, bonds and other products.

Our Directors considered an appropriate short-term treasury arrangement with low risk exposure could enhance the utilisation of capital from surplus cash that might happened for a short period of time when we have a lower level of production and require less working capital, such as the period around lunar new year. In relation to the risk management and monitoring procedures for the Group's treasury management policy, please refer to the section headed "Business — Risk Management and Internal Control" in this prospectus.

Our Directors confirm that our Group does not have any present intention to purchase further wealth management products as at the Latest Practicable Date. The Company will comply with Chapter 19 of the GEM Listing Rules for its future investments in wealth management products shall there be any.

## FINANCIAL INFORMATION

### Trade and other payables

The trade and other payables breakdown of our Group as of the dates indicated is as follow:

	<b>As at 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	7,212	10,862
Other payables	2,172	2,252
Other accrued expenses	<u>2,567</u>	<u>1,808</u>
 Total trade and other payables	 <u><u>11,951</u></u>	 <u><u>14,922</u></u>

Trade payables mainly represent amounts payable to suppliers such as material costs and subcontracting charges.

The following table sets forth our trade payables turnover days for the years indicated:

	<b>FY2015</b>	<b>FY2016</b>
Trade payables turnover days ( <i>note</i> )	<u>41.3 days</u>	<u>60.5 days</u>

*Note:* Trade payables turnover days is calculated based on ending balance of trade payables, divided by cost of sales for the year, then multiplied by 365 days.

For FY2015 and FY2016, our trade payables turnover days were approximately 41.3 days and 60.5 days respectively. The increase in trade payables turnover days was mainly due to an increase in our trade payables as at 31 December 2016, which was mainly due to an increase in purchase of raw materials to meet the increasing demand of our garment accessory products.

Other payables mainly represent the staff welfare payables and other tax payables.

The breakdown of other accrued expenses of our group as of the dates indicated is as follow:

	<b>As at 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Accrued utilities	2,026	1,615
Accrued salary	<u>541</u>	<u>193</u>
	<u><u>2,567</u></u>	<u><u>1,808</u></u>

## FINANCIAL INFORMATION

Ageing analysis of our Group's trade payables based on invoice dates at the end of each reporting period is as follows:

	As at 31 December	
	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	6,443	7,509
91–180 days	168	2,342
181–360 days	416	652
Over 1 year	<u>185</u>	<u>359</u>
	<u>7,212</u>	<u>10,862</u>

As at the Latest Practicable Date, approximately RMB8.9 million or 81.7% of the trade payables as at 31 December 2016 had been subsequently settled.

### Tax payable

Our income tax payable, which represents our current income tax liabilities, was approximately RMB2.1 million and RMB2.1 million as at 31 December 2015 and 31 December 2016, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

During the Track Record Period, our Group's operations were generally financed through a combination of shareholder's equity, internally generated cash flows and amounts due to related parties. Our Directors believe that in the long term, our operation will be funded by internally generated cash flows and, if necessary, additional equity financing.

## FINANCIAL INFORMATION

### Cash flows

The following table sets forth selected cash flows data from our Group's consolidated statements of cash flows for the years indicated:

	<b>FY2015</b>	<b>FY2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Operating cash flows before movements in working capital	12,275	19,305
Net cash from operating activities	11,930	8,746
Net cash (used in) from investing activities	(10,849)	9,755
Net cash from (used in) financing activities	3,327	(8,454)
Net increase in cash and cash equivalents	4,408	10,047
Cash and cash equivalents at beginning of year	8,853	13,261
Cash and cash equivalents at end of year	13,261	23,308

#### *Net cash from operating activities*

We derived our cash flow from operating activities primarily through receipt of payments of sales for our products. Cash outflow in operating activities primarily comprises payment for purchases of raw materials, subcontracting costs and staff costs. Our net cash from operating activities reflects our profit before taxation, as adjusted for non-cash items, such as depreciation, gain on disposal of properties, plant and equipment and allowance for doubtful debts and inventories, and the effects of movements in working capital items.

Our net cash generated from operating activities for FY2015 was approximately RMB11.9 million while our operating cash flows before movements in working capital was approximately RMB12.3 million. The difference of approximately RMB0.4 million was primarily attributable to (i) increase in inventories of approximately RMB2.0 million as we maintained raw materials based on anticipated sales taking into consideration the increase in our sales during FY2016; (ii) increase in trade payables to related parties of approximately RMB1.0 million for purchase of raw materials; and (iii) payment of income tax of approximately RMB1.2 million.

Our net cash generated from operating activities for FY2016 was approximately RMB8.7 million while our operating cash flows before movements in working capital was approximately RMB19.3 million. The difference of approximately RMB10.6 million was primarily attributable to (i) increase in trade receivables of approximately RMB4.0 million; (ii) decrease in trade payables to related parties of approximately RMB2.2 million; and (iii) payment of income tax of approximately RMB4.7 million.



## FINANCIAL INFORMATION

### *Net cash (used in) from investing activities*

Our cash flow from investing activities primarily comprises proceeds on disposal of property, plant and equipment and wealth management products and repayments from a third party and a related party. Cash outflow in investing activities primarily comprises payment of purchases of property, plant and equipment to related parties and purchase of wealth management products and advance repayment to a third party and a related party.

For FY2015, we had net cash outflow in investing activities of approximately RMB10.8 million. This amount primarily represents (i) payment of purchase of wealth management products of RMB3 million; (ii) payment of purchases of property, plant and equipment of approximately RMB1.6 million; (iii) advance to a third party of approximately RMB2.0 million; (iv) advance to a related party of RMB2 million; and (v) prepayment to a related party for purchase of property, plant and equipment of approximately RMB2.3 million.

For FY2016, we had net cash inflow in investing activities of approximately RMB9.8 million. This amount primarily represents (i) proceeds on disposal of property, plant and equipment of approximately RMB4.6 million; (ii) proceeds on disposal of wealth management products of approximately RMB6.2 million; (iii) repayment from a third party of approximately RMB2.0 million; (iv) repayment from a related party of RMB2.0 million and partially offset by payment of purchase of property, plant and equipment of approximately RMB5.1 million.

### *Net cash from (used in) financing activities*

Our net cash inflow from financing activities for FY2015 was approximately RMB3.3 million, which was attributable to advance received from related parties.

Our net cash used in financing activities for FY2016 was approximately RMB8.5 million, which was attributable to the repayment to related parties of approximately RMB12.8 million, partially offset by an advance received from (net of repayment to) our directors of approximately RMB4.3 million.

## **INDEBTEDNESS**

As at 30 April 2017, apart from amount due to a director of approximately RMB1.6 million which was unsecured and unguaranteed, we did not have any bank or other borrowings, mortgages, charges, debentures, or debt security, issued or outstanding, or authorised or otherwise created but unissued, or other similar indebtedness, finance lease commitment, liabilities under acceptance, acceptance credits, hire purchase commitment, any guarantees or material contingent liabilities. As at 30 April 2017, we did not obtain any banking facilities.

Since 30 April 2017 and up to the Latest Practicable Date, our Group had no unutilised banking facilities and there has been no material adverse change in our indebtedness.

## **OFF-BALANCE SHEET ARRANGEMENTS AND COMMITMENTS**

Our Directors confirm that our Group did not have any material off-balance sheet transactions or arrangements during the Track Record Period.

## FINANCIAL INFORMATION

### SELECTED KEY FINANCIAL RATIOS

	<b>FY2015/ As at 31 December 2015</b>	<b>FY2016/ As at 31 December 2016</b>
Net profit margin	6.4%	9.2%
Current ratio	1.3 times	2.1 times
Quick ratio	1.3 times	2.0 times
Return on assets	9.5%	14.3%
Return on equity	17.6%	21.7%

*Notes:*

1. Net profit margin is calculated by the total comprehensive income divided by the revenue for the respective year and multiplied by 100%.
2. Current ratio is calculated based on the current assets divided by current liabilities.
3. Quick ratio is calculated based on the current assets less inventories, divided by current liabilities.
4. Return on assets is calculated by the total comprehensive income for the year divided by total assets multiplied by 100.0%.
5. Return on equity is calculated by the total comprehensive income for the year divided by total equity multiplied by 100.0%.

#### **Net profit margin**

Our net profit margin was 6.4% for FY2015 and 9.2% for FY2016, representing an increase of 2.8%.

The increase in our net profit margin was mainly due to increase in our gross profit margin of 4.3%, partially off-set by listing expenses of approximately RMB2.3 million incurred in FY2016 and increase in income tax expense of approximately RMB3.1 million in FY2016.

#### **Current and quick ratio**

Our current ratio as at 31 December 2015 and 31 December 2016 was approximately 1.3 times, and 2.1 times respectively, while the quick ratio as at 31 December 2015 and 31 December 2016 was approximately 1.3 times, and 2.0 times, respectively. Our current ratio and quick ratio improved during the Track Record Period which was mainly attributable to the net movement in our cash and cash equivalents balance, and amounts due to related parties, detailed explanation of the foresaid movement are set out under the paragraphs headed “Liquidity and capital resources” and “Amounts due from (to), prepayment to and trade payables to related parties” in this section.

#### **Return on assets**

Our return on assets increased from 9.5% for FY2015 to 14.3% for FY2016, primarily due to the increase in our net profit for FY2016 as detailed above.

## FINANCIAL INFORMATION

### Return on equity

Our return on equity increased from 17.6% for FY2015 to 21.7% for FY2016, primarily due to the increase in our net profit for FY2016 as detailed above.

### CAPITAL EXPENDITURES AND COMMITMENTS

#### Operating Lease Commitments

##### *Our Group as lessee*

Our Group had made minimum lease payments of approximately RMB3.7 million and RMB2.8 million for FY2015 and FY2016 respectively, in respect of factory, office and director and staff quarters.

At the end of each reporting period, our Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises for factory, office and director and staff quarters which fall due as follows:

	As at 31 December	
	2015	2016
	RMB'000	RMB'000
Within one year	3,768	2,786
In the second to fifth years inclusive	<u>210</u>	<u>4,265</u>
	<u><u>3,978</u></u>	<u><u>7,051</u></u>

Operating lease payments represent rentals payable by our Group for certain of its premises. Leases are negotiated for terms ranging from two to three years and rentals are fixed over the terms of the leases.

### LISTING EXPENSES

Our Directors expect that our total Listing expenses, which are non-recurring in nature, will amount to approximately HK\$22.4 million (assuming the Offer Price of HK\$0.30 per Offer Share; being the mid-point of the indicative Offer Price range stated in this prospectus). Out of the total HK\$22.4 million of Listing expenses, approximately HK\$2.7 million had been recognised in profit or loss in FY2016, our Directors expect to recognise approximately HK\$11.9 million in our Group's profit and loss accounts for the year ending 31 December 2017 and the remaining estimated Listing expenses in the amount of approximately HK\$7.8 million will be deducted from equity upon the Listing.

Accordingly, the financial results of our Group for the year ending 31 December 2017 are expected to be significantly affected by the estimated expenses in relation to the Listing, as a result, it is expected that there will be a significant decrease in net profit for the year ending 31 December 2017. Our Directors would like to emphasise that this predicted cost of Listing is a current estimate for reference only. As such, the actual amount may differ from these estimates and the final amount to be recognized in the consolidated statement of comprehensive income of our Group for the year ending 31 December 2017 is subject to adjustment based on audit and the then changes in variables and assumptions.

## FINANCIAL INFORMATION

### NO MATERIAL ADVERSE CHANGE

Save for the total expenses for the Listing estimated to be approximately HK\$22.4 million, of which approximately HK\$11.9 million will be recorded in our Group's profit and loss for the year ending 31 December 2017, our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2016 (being the date to which the latest audited consolidated financial statements of our Group were prepared), and there is no event since 31 December 2016 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

### WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration our Group's internal resources and the estimated net proceeds from the Share Offer, our Group has sufficient working capital for its present requirements, for at least the next 12 months from the date of this prospectus.

### DISTRIBUTABLE RESERVES

Our Company was incorporated on 22 January 2016. As at 31 December 2016, our Company had no distributable reserves available for distribution to our Shareholders.

### RELATED PARTY TRANSACTIONS

Our related party transactions during the Track Record Period are summarised in note 29 to the Accountants' Report set out in Appendix I to this prospectus. Related parties which conducted transactions with our Group during the Track Record Period, and their relationship with our Group are summarised as follows:

<b>Related parties</b>	<b>Relationship with our Group</b>
蘇州工業園區史威特服飾有限公司 (Suzhou Industrial Park Sweater Limited*) (“ <b>Suzhou Sweater</b> ”)	Mr. Lam has beneficial interest in this company
DY Weaving and DY Apparel	Mr. Lam had beneficial interests in these companies up to 26 May 2016
Suzhou Duoyue Garment	Mr. Lam had beneficial interest in this company up to 22 February 2016
Sweater Garment (Huizhou)	Mr. Lam has beneficial interest in this company
Mr. Gabi Lam	Director of our Group
Mr. Jeffrey Lam	Director of our Group
Ms. Man Yee Lam	Ms. Lam Man Yee is a close family member of the directors of our Group

## FINANCIAL INFORMATION

During the Track Record Period, our transactions with related parties include the following:

<b>Nature of transaction</b>	<i>Notes</i>	<b>FY2015</b> <i>RMB'000</i>	<b>FY2016</b> <i>RMB'000</i>
<i>Purchase of property, plant and equipment from:</i>			
Suzhou Duoyue Garment	<i>(i)</i>	—	2,295
DY Weaving	<i>(ii)</i>	—	2,740
DY Apparel	<i>(ii)</i>	—	1,613
		—	6,648
 <i>Purchase of raw material from:</i>			
DY Apparel	<i>(iii)</i>	6,427	—
DY Weaving	<i>(iii)</i>	848	—
Suzhou Duoyue Garment	<i>(iii)</i>	657	—
		7,932	—
 <i>Subcontracting costs paid to</i>			
DY Apparel	<i>(iii)</i>	2,229	—
DY Weaving	<i>(iii)</i>	523	—
Suzhou Duoyue Garment	<i>(iii)</i>	30	—
		2,782	—
 <i>Rental expenses paid to:</i>			
Sweater Garment (Huizhou)	<i>(iv)</i>	3,288	2,692
Mr. Gabi Lam	<i>(v)</i>	360	30
Ms. Man Yee Lam	<i>(v)</i>	60	5
		3,708	2,727
 <i>Sales of raw material to:</i>			
DY Apparel	<i>(vi)</i>	267	7
DY Weaving	<i>(vi)</i>	—	20
Suzhou Sweater	<i>(vi)</i>	26	—
		293	27
 Sales of property to Mr. Jeffrey Lam	 <i>(vii)</i>	 —	 3,519

*Notes:*

- (i) The amount represented purchase of certain weaving machines from Suzhou Duoyue Garment in January 2016. We considered the weaving machines were suitable to our Group's operation and expansion plan and therefore we purchased such machines before Mr. Lam and Mrs. Lam disposed of their beneficial interests in Suzhou Duoyue Garment.
- (ii) The amount represented purchase of certain printing machines and weaving machines from DY Apparel and DY Weaving in March 2016. We considered such machines were suitable to our Group's operation and expansion plan and therefore we purchased such machines before Mr. Lam and Mrs. Lam disposed of their beneficial interests in DY Apparel and DY Weaving.

## FINANCIAL INFORMATION

- (iii) In FY2015, we engaged DY Apparel, DY Weaving and Suzhou Duoyue Garment to produce our products, who were also responsible for preparation of raw materials. Subsequent to our acquisition of machines from DY Apparel, DY Weaving and Suzhou Duoyue Garment in the first quarter of 2016, no further order has been placed to these companies.
- (iv) The amount represented rental fee for leasing the factory and office of STL Garment Accessories and STL Apparel Accessories from Sweater Garment (Huizhou). Please refer to the section headed “Connected transactions” in this prospectus for details.
- (v) The amount represented rental fee for leasing staff quarters from Mr. Gabi Lam and Ms. Man Yee Lam. Since January 2016, no further rental fee was paid for leasing staff quarters from them.
- (vi) The amount represented sale of raw material to DY Apparel, DY Weaving and Suzhou Sweater during the Track Record Period. Since May 2016, no further raw material was sold to these companies.
- (vii) On 21 September 2016, our Group disposed of a staff quarter to Mr. Jeffrey Lam at consideration of approximately RMB3.5 million, which is determined by the valuation report prepared by a qualified professional valuer under China Appraisal Society not connected with our Group.

Our Directors confirm that each of such transactions was conducted on normal commercial terms and/or that such terms that were no less favourable to our Group than term available from Independent Third Parties which are fair and reasonable and in the interest of our Shareholders as a whole. Save as (iv) which is a continuing connected transaction, these related party transactions have been discontinued prior to the Latest Practicable Date.

Further information regarding the continuing connected transaction of our Group is set forth in the section headed “Connected transactions” in this prospectus.

### FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The major financial risks arising from our Group’s normal course of business include market risk (interest rate risk), credit risk and liquidity risk. For details, please refer to note 26b — “Accountants’ Report — Financial risk management objectives and policies” to the Appendix I of this prospectus.

### DIVIDEND

No dividends were declared for FY2015 and FY2016. In June 2017, we declared a special dividend of RMB7.1 million to our sole Shareholders, which is expected to be settled by cash before the Listing.

Our Directors consider that there is no material adverse impact on our Group’s financial and liquidity position arising out of the dividend payment.

Our Group currently does not have any specific dividend policy. Dividends may be paid out by way of cash or by other means that our Directors consider appropriate. The declaration of future dividends will be subject to the discretion of our Board and the approval of our Shareholders and will depend on our earnings, financial condition, cash requirement and availability and any other factors our Directors may deem relevant. As such factors and the payment of dividends are at the discretion of our Board, there can be no assurance that any particular dividend amount or any dividend at all, will be declared and paid in the future. Prospective investors should note that historical dividend payments should not be regarded as an indication of our future dividend.

## **FINANCIAL INFORMATION**

### **DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES**

Our Directors have confirmed that, except as otherwise disclosed in this prospectus, as at the Latest Practicable Date, they were not aware of any circumstances which could give rise to a disclosure obligation pursuant to Rules 17.15 to 17.21 of the GEM Listing Rules.

### **RECENT DEVELOPMENT**

According to our Group's unaudited consolidated management accounts prepared by our Directors for the four months ended 30 April 2017, our total revenue increased by approximately 14.9% for the four months ended 30 April 2017 compared to the same period in 2016, as compared to the industry growth rate of 9.7% in 2016 as stated in the F&S Report. Our gross profit margin for the two periods were at similar level. Profit of our Group in FY2017 may potentially decrease as compared to that in FY2016 since our Group has not recorded any gain on disposal of properties, plant and equipment, being non-recurring in nature, for the four months ended 30 April 2017, apart from the impact of the listing expenses as mentioned under the paragraph headed "Listing expenses" in this section.

Our Directors believe that the PRC garment accessories market is likely to have continuous growth in 2017.

In late February 2017, we have achieved positive business development result where we obtained approval from a garment brand company which is a new customer and a new brand to our Group to commence trial production, which we then started to process orders by the garment manufacturers designated by this garment brand company in March 2017. This garment brand company was founded in 1980 in Hong Kong and introduced its own brand in 1985. It started with positioning itself as a speciality clothing chain distributing men's and women's career wear. It is now a multi-brand specialty retailer offering an assortment of men's and women's apparel and accessories with over 700 outlets covering Hong Kong, Macau, PRC, and a few countries in South East Asia. Our revenue from this garment brand company, as projected by this garment brand company, is expected to be around HK\$2.0 million for 2017.

### **UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS**

The following unaudited pro forma financial information prepared in accordance with paragraph 7.31 of the GEM Listing Rules and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants is for illustrative purposes only, and is set out herein to provide prospective investors with further illustrative financial information about how the Share Offer might have affected the consolidated net tangible assets of our Group after the completion of the Share Offer as if the Share Offer had taken place on 31 December 2016. Because of its hypothetical nature, the unaudited pro forma financial information may not give a true picture of the financial position of our Group had the Share Offer been completed on 31 December 2016 or at any future dates.

## FINANCIAL INFORMATION

The unaudited pro forma adjusted consolidated net tangible assets of our Group as at 31 December 2016 is based on the audited consolidated net tangible assets of our Group as at 31 December 2016 as shown in the Accountants' Report set out in Appendix I to this prospectus and the adjustments described below.

	<b>Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016</b>	<b>Estimated net proceeds from the Share Offer</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016</b>	<b>Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 31 December 2016 per Share</b>
	<i>RMB'000</i> <i>(Note 1)</i>	<i>RMB'000</i> <i>(Note 2)</i>	<i>RMB'000</i>	<i>RMB</i> <i>(Note 3)</i>
Based on an Offer Price of HK\$0.26 per Share	44,360	28,036	72,396	0.09
Based on an Offer Price of HK\$0.30 per Share	44,360	34,567	79,017	0.10
Based on an Offer Price of HK\$0.34 per Share	44,360	41,278	85,638	0.11

*Notes:*

1. The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 is based on the consolidated net assets of the Group attributable to owners of the Company of approximately RMB44,478,000 with an adjustment for intangible asset of approximately RMB118,000 as at 31 December 2016 as extracted from the Accountants' Report set forth in Appendix I to this prospectus.
  
2. The adjustment to the unaudited pro forma statement of consolidated net tangible assets of the Group reflects the estimated net proceeds from the Share Offer to be received by the Company. The estimated net proceeds from the Share Offer is based on 200,000,000 Shares at the Share Offer of HK\$0.26, HK\$0.30 and HK\$0.34 per Share, being the low-end, mid-point and high-end of the stated Offer Price range, respectively, after deduction of the estimated underwriting fees and other related expenses expected to be incurred by the Group subsequent to 31 December 2016 and does not take into account of any Share which may be allotted and issued upon the exercise of any option that may be granted under the Share Option Scheme, or any Share which may be issued or repurchased pursuant to the Company's general mandate.

The estimated net proceeds from the Share Offer are converted from Hong Kong dollars into Renminbi at an exchange rate of RMB1.0 to HK\$1.12. No representation is made that Hong Kong dollars amounts have been, could have could be converted to Renminbi, or vice versa, at that rate or at all.



## FINANCIAL INFORMATION

3. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is based on 800,000,000 Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue assumed to be completed on 31 December 2016. It does not take into account of any Share which may be allotted and issued upon the exercise of any option that may be granted under the Share Option Scheme, or any Share which may be issued or repurchased pursuant to the Company's general mandate.
4. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2016.
5. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2016 does not take into account the special dividend of RMB7,088,000 to be declared before the Share Offer. Had the special dividend of RMB7,088,000 to be declared before the Share Offer been taken into account of the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 and the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 31 December 2016 would have been further adjusted to RMB65,308,000 and RMB0.08, RMB71,929,000 and RMB0.09, RMB78,550,000 and RMB0.10, respectively, based on Share Offer Price of HK\$0.26, HK\$0.30 and HK\$0.34 per Share.

## FUTURE PLANS AND USE OF PROCEEDS

### FUTURE PLANS

Please refer to the section headed “Business — Business strategies and future plans” in this prospectus for a description of our future plans.

### USE OF PROCEEDS

The net proceeds of the Share Offer will strengthen our capital base and will provide funding for achieving our business strategies and carrying out our future plans as set out in this section of this prospectus.

Assuming that the Offer Price is determined at HK\$0.30 per Offer Share (being the mid-point of the Offer Price range), the aggregate amount of net proceeds of the Share Offer to be received by our Company after deducting the underwriting commission and estimated expenses payable by our Company is estimated to be approximately HK\$37.6 million. Our Directors currently intend to apply such net proceeds in the following manner:

- (a) approximately HK\$17.0 million or 45.2% will be used for upgrading our production facilities and digital printing technology;
- (b) approximately HK\$3.0 million or 8.0% will be used for developing the capability of applying RFID technology to our products;
- (c) approximately HK\$6.0 million or 16.0% will be used for enhancing our heat transfer printing production facilities;
- (d) approximately HK\$5.3 million or 14.1% will be used for upgrading our information technology systems;
- (e) approximately HK\$3.0 million or 8.0% will be used for expansion of our sales and marketing department; and
- (f) approximately HK\$3.3 million or 8.7% will be used as general working capital.

The above allocation of the net proceeds of the Share Offer will be adjusted on a pro rata basis in the event that the Offer Price is determined at a higher or lower level compared to the mid-point of the Offer Price range.

Assuming that the Offer Price is determined at HK\$0.34 per Offer Share (being the high-end of the Offer Price range), our Company will receive additional net proceeds of approximately HK\$7.6 million.

Assuming that the Offer Price is determined at HK\$0.26 per Offer Share (being the low-end of the Offer Price range), the net proceeds our Company receives will be reduced by approximately HK\$7.6 million.

The net proceeds will be used in the same proportions as disclosed above irrespective of whether the Offer Price is determined at the highest or lowest point of the indicative Offer Price range.

## FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds of the Share Offer are not immediately required for the above purposes, our Directors currently intend that such proceeds be placed on short-term deposits with licensed banks and/or financial institutions.

### IMPLEMENTATION PLAN

In light of the business objectives of our Group, we will seek to attain the milestones contained in this paragraph from the Latest Practicable Date to 31 December 2019. Prospective investors should note that the milestones and their scheduled times for attainment are formulated on the bases and assumptions referred to in the paragraph headed “Bases and assumptions” in this section. These bases and assumptions are inherently subject to many uncertainties, variables and unpredictable factors, in particular the risk factors set out in the section headed “Risk factors” in this prospectus. Our Group’s actual course of business may vary from the business objectives set out in this prospectus. There can be no assurance that the plans of our Group will materialise in accordance with the expected time frame or that the objectives of our Group will be accomplished at all. Our Directors intend to carry out the following implementation plans:

#### From the Latest Practicable Date to 31 December 2017

<b>Business strategy</b>	<b>Implementation plan</b>	<b>Use of proceeds (Approximately HK\$ million)</b>
<b>Enhancing our heat transfer printing production facilities</b>	<ul style="list-style-type: none"> <li>● Acquiring certain heat transfer printing machines</li> <li>● Hiring additional staff for operating the heat transfer printing machines</li> </ul>	<p>2.0</p> <p>1.0</p> <hr style="width: 100%;"/> <p><b>3.0</b></p>
	<b>Sub-total for the period</b>	<b>3.0</b>

## FUTURE PLANS AND USE OF PROCEEDS

**From 1 January 2018 to 30 June 2018**

<b>Business strategy</b>	<b>Implementation plan</b>	<b>Use of proceeds (Approximately HK\$ million)</b>
<b>Upgrading our production facilities and digital printing technology</b>	● Acquiring one four-colour offset printing machine with inline UV coating capabilities	6.5
	● Acquiring one colour digital printing machine	4.0
<b>Developing the capability of applying RFID technology to our products</b>	● Acquiring certain RFID technology machineries	1.5
<b>Enhancing our heat transfer printing production facilities</b>	● Additional staff costs for retaining the aforesaid additional staff for operating the heat transfer printing machineries	1.0
<b>Sub-total for the period</b>		<b>13.0</b>

**From 1 July 2018 to 31 December 2018**

<b>Business strategy</b>	<b>Implementation plan</b>	<b>Use of proceeds (Approximately HK\$ million)</b>
<b>Enhancing our heat transfer printing production facilities</b>	● Additional staff costs for retaining the aforesaid additional staff for operating the heat transfer printing machineries	1.0
<b>Upgrading our information technology systems</b>	● Hiring a ERP consultancy company in the PRC to advise on the integrated solution	5.3
<b>Expand our sales and marketing department</b>	● Hiring three experienced sales and marketing managers	1.0
<b>Sub-total for the period</b>		<b>7.3</b>

## FUTURE PLANS AND USE OF PROCEEDS

**From 1 January 2019 to 30 June 2019**

<b>Business strategy</b>	<b>Implementation plan</b>	<b>Use of proceeds (Approximately HK\$ million)</b>
<b>Upgrading our production facilities and digital printing technology</b>	<ul style="list-style-type: none"> <li>● Acquiring one four-colour offset printing machine with inline UV coating capabilities</li> </ul>	6.5
<b>Developing the capability of applying RFID technology to our products</b>	<ul style="list-style-type: none"> <li>● Acquiring certain RFID technology machineries</li> </ul>	1.5
<b>Enhancing our heat transfer printing production facilities</b>	<ul style="list-style-type: none"> <li>● Additional staff costs for retaining the aforesaid additional staff for operating the heat transfer printing machineries</li> </ul>	1.0
<b>Expand our sales and marketing department</b>	<ul style="list-style-type: none"> <li>● Additional staff costs for retaining the aforesaid sales and marketing managers</li> </ul>	1.0
<b>Sub-total for the period</b>		10.0

**From 1 July 2019 to 31 December 2019**

<b>Business strategy</b>	<b>Implementation plan</b>	<b>Use of proceeds (Approximately HK\$ million)</b>
<b>Expand our sales and marketing department</b>	<ul style="list-style-type: none"> <li>● Additional staff costs for retaining the aforesaid sales and marketing managers</li> </ul>	1.0
<b>Sub-total for the period</b>		1.0

Throughout the Latest Practicable Date to 31 December 2019, approximately HK\$3.3 million or 8.7% will be used as general working capital of our Group.

## **FUTURE PLANS AND USE OF PROCEEDS**

### **BASES AND ASSUMPTIONS**

The business objectives set out by our Directors are based on the following bases and assumptions:

- (a) we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- (b) there will be no material changes in existing laws, rules and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions in which our Group operates;
- (c) there will be no change in the funding requirement for each of the near term business objectives described in this prospectus from the amount as estimated by our Directors;
- (d) there will be no material changes in the bases or rates of taxation applicable to the activities of our Group;
- (e) there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group; and
- (f) we will not be materially affected by the risk factors as set out in the section headed “Risk factors” in this prospectus.

### **REASONS AND BENEFITS OF LISTING ON GEM**

Our Directors believe that the Listing is beneficial to our Group in the long run due to the following reasons:

#### **To capture growth opportunities in garment accessories market in the PRC**

Our Directors are optimistic about the future outlook of the garment accessories market in the PRC. According to the F&S Report, in the period of 2011 to 2015, the PRC garment accessories market have achieved a CAGR of approximately 10.1% and is expected to further grow with a CAGR of 8.4% from 2016 to 2020. Among the PRC garment market, fast fashion brands rapidly develop, leading to shortened garment updating period and increasing demand for garment accessories. Further, with the maturity of electronic data interchange technology, garment labels are transforming into a multi-function tool and deliver a much higher level of business value by playing many synergistic roles in variable data management, brand identity and supply chain management. Given the optimistic outlook of the garment accessories market in the PRC, our Directors believe that it is important for our Group to capture these growth opportunities by the Listing, which enable our Group’s business to further develop. To equip our Group to capture the industry growth, as disclosed in the paragraphs headed “Use of Proceeds” in this section and the section headed “Business — Business strategies and future plans” in this prospectus, the proceeds from the Share Offer will mainly be used for upgrading our production facilities by acquiring various types of printing machines and other equipment during the period from the Latest Practicable Date and up to 30 June 2019. The plan will be entirely financed by the net proceeds from the Share Offer.

## **FUTURE PLANS AND USE OF PROCEEDS**

### **Future access to capital raising platform**

Our Directors believe that it is necessary for our Group, after over 15 years of business operations, to have our own equity financing platform for our further business development. The Listing represents the first step of this effort to have a direct access to the equity capital markets. With the Listing status on the Stock Exchange, we will have the opportunity to access to additional equity financing with minimum additional finance costs. Our Directors also expect that we would be able to negotiate with banks for better terms of financing to implement our future business plans following the Listing with financial and operational transparency as a listed company. The Listing will therefore be advantageous to our Group not only on the proceeds that could be raised through the Share Offer upon Listing, but also on the fund raising opportunities that may be available to our Group subsequent to the Listing.

### **A public listing status will enhance our corporate profile**

The Listing will also enhance our corporate profile among our customers, suppliers and other business partners, as well as our ability to recruit, motivate and retain key management personnel. With the status of a listed company, with higher corporate profile and credibility, sound internal and corporate governance practice and regulatory supervision, our Directors believe that the Listing will allow us to enhance our competitiveness against our competitors. We will therefore be in a better position to attract more potential customers and solicit more and large-scale businesses upon the Listing.

## UNDERWRITING

### UNDERWRITERS

#### Public Offer Underwriters

Alliance Capital Partners Limited  
Gransing Securities Co., Limited  
Guotai Junan Securities (Hong Kong) Limited  
Caitong International Securities Co., Limited  
China Jianxin Financial Services Limited  
Fulbright Securities Limited  
Pacific Foundation Securities Limited  
Quasar Securities Co., Limited  
ZMF Asset Management Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### The Public Offer

##### *Public Offer Underwriting Agreement*

Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to offer the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Stock Exchange and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have severally and not jointly agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.



## UNDERWRITING

### *Grounds for termination*

The Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of all the Public Offer Underwriters) shall have the absolute right upon giving a written notice to our Company to terminate the Public Offer Underwriting Agreement if any of the following events occur prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

- (A) if it has come to the notice of the Sole Sponsor and the Joint Bookrunners:
- (i) any matter or event showing any of the representations, warranties and undertakings contained in the Public Offer Underwriting Agreement to be untrue, inaccurate or misleading in any material respect when given or repeated or there has been a breach of any of such representations, warranties and undertakings or any other provision of the Public Offer Underwriting Agreement by any party to the Public Offer Underwriting Agreement other than the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters which, in any such cases, is considered, in the reasonable opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), to be material in the context of the Public Offer; or
  - (ii) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted a material omission in the reasonable opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) in the context of the Public Offer; or
  - (iii) any statement contained in this prospectus considered to be material by the Joint Bookrunners in their reasonable opinion which is discovered to be or becomes untrue, incorrect or misleading in any respect considered in the reasonable opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) to be material; or
  - (iv) any event, act or omission which gives rise or is likely to give rise to any liability of any of our Company, the executive Directors and the Controlling Shareholders pursuant to the indemnities contained in the Public Offer Underwriting Agreement; or
  - (v) any breach by any party to the Public Offer Underwriting Agreement other than the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters of any provision of the Public Offer Underwriting Agreement which is considered in the reasonable opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) to be material; or
  - (vi) any adverse change or a prospective adverse change in the business, results of operation, financial or trading position, or prospects of our Group as a whole the effect of which is, in the reasonable opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), so material and adverse as to make it impracticable or inadvisable to proceed with the Share Offer; or

## UNDERWRITING

- (vii) approval by the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, or if granted, the approval is subsequently withdrawn, qualified or withheld; or
  - (viii) any person (other than the Joint Bookrunners and the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in this prospectus as expert or to the issue of this prospectus; or
- (B) if there develops, occurs, exists or comes into effect any event or series of events, matters or circumstances whether occurring or continuing before, on and/or after the date of the Public Offer Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:
- (i) any new law or regulation or any material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, Macau, the Cayman Islands, the BVI, the PRC or any other jurisdiction relevant to any member of the Group (the “**Relevant Jurisdictions**”); or
  - (ii) any change (whether or not permanent) in local, national or international stock market conditions; or
  - (iii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange or other major stock exchanges in the United States, the United Kingdom or the PRC due to exceptional financial circumstances or otherwise; or
  - (iv) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in any of the Relevant Jurisdictions; or
  - (v) any change or development or event involving a prospective change in our Group’s assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects; or
  - (vi) any change or development (whether or not permanent), or any event or series of events resulting in any change in local, national, regional or international financial, political, military, industrial, legal, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States) in or affecting any of the Relevant Jurisdictions; or
  - (vii) a general moratorium on commercial banking business activities in any of the Relevant Jurisdictions declared by the relevant authorities; or
  - (viii) any event of force majeure including but without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, pandemic, act of terrorism, earthquake, strike or lock-out; or

## UNDERWRITING

- (ix) any litigation or claim of any third party being threatened or instigated against any member of our Group, the executive Directors and/or our Controlling Shareholders; or
- (x) any change or development involving a prospective change, or materialisation of, any of the risks set out in the section headed “Risk factors” in this prospectus; or
- (xi) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
- (xii) any imposition of economic or other sanctions, in whatever form, directly or indirectly, by or to any of the Relevant Jurisdictions; or
- (xiii) a petition is presented for the winding up or liquidation of any member of our Group, or any member of our Group make any compromise or arrangement with its creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (xiv) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which such member of our Group is liable prior to its stated maturity, or any loss or damage sustained any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xv) any judicial, regulatory or governmental authority or political body or organisation in any of the Relevant Jurisdictions commencing any investigation, action, claim or proceedings, or announcing an intention to investigate or take any action, against any Director; or
- (xvi) any Director being charged with an indictable offence or prohibited by the operation of law or otherwise disqualified from taking part in the management of a company; or
- (xvii) the chairman or chief executive officer of our Company vacating his office; or
- (xviii) any prohibition on our Company for whatever reason from allotting the Offer Shares pursuant to the Share Offer and the terms set out in the Public Offer Underwriting Agreement and this prospectus; or
- (xix) other than with the approval of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), the issue or the requirement to issue by our Company of any supplement or amendment to this prospectus (or to any documents used in connection with the Share Offer) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the GEM Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

## UNDERWRITING

(xx) any event which gives rise or would give rise to any liability on the part of our Company and/or our Controlling Shareholders pursuant to the indemnity provisions contained in the Public Offer Underwriting Agreement; or

(xxi) a breach of any of the representations, warranties and undertakings contained in the Public Offer Underwriting Agreement or of any of the other obligations imposed upon or undertakings given by our Company under the Public Offer Underwriting Agreement,

which, individually or in the aggregate, in the sole and reasonable opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters):

- (a) is or will or in likely to be materially adverse to the business, financial condition or prospects of our Company and/or our Group taken as a whole; or
- (b) has or will have or is likely to have a material adverse effect on the success of the Share Offer; or
- (c) makes or will make or is likely to make it inappropriate, inadvisable or inexpedient to proceed with the Share Offer.

### **Undertakings to the Stock Exchange under the GEM Listing Rules**

#### *(A) Undertakings by our Company*

Pursuant to Rule 17.29 of the GEM Listing Rules, we have undertaken to the Stock Exchange that, except pursuant to the Capitalisation Issue, the Share Offer and the Share Option Scheme as described and contained in this prospectus, no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except for the circumstances as permitted by Rule 17.29 of the GEM Listing Rules.

#### *(B) Undertakings by our Controlling Shareholders*

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and our Company respectively that, except for the circumstances permitted pursuant to Rule 13.18 of the GEM Listing Rules, it/he shall not and shall procure that the relevant registered shareholder(s) shall not:

- (a) in the period commencing on the date by reference to which disclosure of its/his shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares in respect of which it/he is shown by this prospectus to be the beneficial owner(s); or
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the

## UNDERWRITING

Shares referred to in paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would cease to be a controlling shareholder (as defined in the GEM Listing Rules) of our Company.

Pursuant to Rule 13.19 of the GEM Listing Rules, each of our Controlling Shareholders has also undertaken to the Stock Exchange and our Company respectively that, within the period commencing on the date by reference to which disclosure of its/his shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it/he will:

- (a) in the event that it/he pledges or charges any direct or indirect interest in our Shares pursuant to a pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) as security for a bona fide commercial loan under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, inform our Company immediately thereafter, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
- (b) having pledged or charged any interest in our Shares under paragraph (a) above, inform our Company immediately in the event that it/he becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of Shares affected.

### **Undertakings pursuant to the Public Offer Underwriting Agreement**

#### *Undertakings by our Controlling Shareholders*

Each of our Controlling Shareholders has undertaken to each of our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) that, except as permitted under the GEM Listing Rules, he/it shall not and shall procure that the relevant registered shareholder(s) and his/its associates or companies controlled by him/it and any nominee or trustee holding in trust for him/it shall not during the period of six months after the Listing Date (the “**First Six-Month Period**”), without the prior written consent the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters):

- (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer, dispose of either directly or indirectly, any of the Shares in respect of which it or he is shown in this Prospectus to be directly or indirectly interested in (the “**Relevant Securities**”); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities, whether any of the foregoing transactions is to be settled by delivery of the Relevant Securities or such other securities, in cash or otherwise; or
- (c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a) or (b) above; or
- (d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) above.

## UNDERWRITING

Each of our Controlling Shareholders also jointly and severally undertakes to each of our Company, the Sole Sponsor, the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) that he/it shall not, and shall procure that the relevant registered holder(s) and his/its associates or companies controlled by him/it and any nominee or trustee holding in trust for him/it shall not, without the prior written consent of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), in the six month period commencing from the expiry of the First Six-Month Period (the “**Second Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Relevant Securities held by him/it or any of his/its associates or companies controlled by him/it or any nominee or trustee holding in trust for him/it if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it would cease to be a Controlling Shareholder or would together with the other Controlling Shareholders cease to be, or be regarded as, Controlling Shareholders.

Each of our Controlling Shareholders has also undertaken to each of our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) that, within the first 12 months from the Listing Date, he/it will:

- (a) when he/it pledges or charges any securities or interests in the securities of our Company beneficially owned by him/it directly or indirectly, immediately inform our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) in writing of such pledges or charges together with the number of securities and nature of interests so pledged or charged; and
- (b) when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company, the Sole Sponsor, and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) in writing of such indications and the number of securities and nature of interests affected.

Our Company shall inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by our Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with the GEM Listing Rules as soon as possible.

### *Undertakings by our Company*

Our Company has undertaken to the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) that, save with the prior written consent of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) (such consent not to be unreasonably withheld or delayed) or save for Shares issued pursuant to the Share Offer, the Capitalisation Issue or the exercise of any options granted or to be granted under the Share Option Scheme, and in compliance with the GEM Listing Rules and the applicable laws, our Company or any of its subsidiaries will not:

- (a) allot or issue or agree to allot or issue any shares or any other securities in our Company or any of its subsidiaries or grant or agree to grant any option, warrant or other right carrying the right to subscribe for, or otherwise convert into, or exchange for, any shares or any other securities of our Company or any of its subsidiaries during the First Six-Month Period;

## UNDERWRITING

- (b) issue any share or securities in our Company or grant or agree to grant any option, warrant or other right carrying the right to subscribe for or otherwise convert into or exchange for shares or securities in our Company or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such shares or securities during the Second Six-Month Period so as to result in each of our Controlling Shareholders ceasing to be a Controlling Shareholder or our Company ceasing to hold a controlling interest of 30% or more in any major subsidiary (which shall have the same meaning as in Rule 17.27(2) of the GEM Listing Rules) of our Group;
- (c) during the First Six-Month Period purchase any Shares or any other securities of our Company; and
- (d) offer to or agree to do any of the foregoing or announce any intention to do so, other than the Shares which may fall to be issued pursuant to the grant or the exercise of any options under the Share Option Scheme or any consolidation, sub-division or capital reduction of the Shares or by way of scrip dividend schemes or other similar schemes in accordance with the Articles of Association and the GEM Listing Rules or otherwise approved by the Stock Exchange.

### **The Placing**

#### *Placing Underwriting Agreement*

In connection with the Placing, it is expected that our Company will enter into the Placing Underwriting Agreement with, inter alia, the Placing Underwriters, on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement and on the additional terms described below. Under the Placing Underwriting Agreement, the Placing Underwriters will agree to subscribe or purchase or procure subscribers or purchasers for the Placing Shares being offered pursuant to the Placing. The Placing Underwriting Agreement is expected to provide that it may be terminated on grounds similar to those provided in the Public Offer Underwriting Agreement. Potential investors are reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed.

It is expected that, pursuant to the Placing Underwriting Agreement, our Company, our executive Directors and our Controlling Shareholders will give undertakings similar to those given pursuant to the Public Offer Underwriting Agreement, as described in the paragraph headed “Underwriting arrangements and expenses — The Public Offer — Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

It is expected that each of our Controlling Shareholders will undertake to the Placing Underwriters not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of our Shares held by them in our Company for a period similar to that given by them pursuant to the Public Offer Underwriting Agreement as described in the paragraph headed “Underwriting arrangements and expenses — The Public Offer — Undertakings Pursuant to the Public Offer Underwriting Agreement” in this section.



## **UNDERWRITING**

### **Underwriting commission and expenses**

According to the Public Offer Underwriting Agreement, the Public Offer Underwriters will receive an underwriting commission of 7% of the aggregate Offer Price payable for the Public Offer Shares initially offered under the Public Offer, out of which they will pay any sub-underwriting commissions and selling concessions. The Placing Underwriters are expected to receive similar underwriting commission on the aggregate Offer Price payable for the Placing Shares subject to the terms and conditions of the Placing Underwriting Agreement.

Based on the Offer Price of HK\$0.30 per Offer Share, being the mid-point of the estimated Offer Price range, such underwriting commissions, together with the Stock Exchange listing fee, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing, and other expenses relating to the Share Offer which are estimated to be approximately HK\$22.4 million in aggregate and are payable by our Company.

### **UNDERWRITERS' INTERESTS IN OUR COMPANY**

Save for their obligations under the Underwriting Agreements, none of the Underwriters is interested legally or beneficially in any shares of any member of our Group nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group nor any interest in the Share Offer.

### **COMPLIANCE ADVISER'S AGREEMENT**

Our Company has appointed Alliance Capital Partners Limited to act as the compliance adviser to our Company for the purpose of the GEM Listing Rules for a period from the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date.

### **SPONSOR'S INDEPENDENCE**

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 6A.07 of the GEM Listing Rules.



## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

### THE PUBLIC OFFER

#### Number of Shares initially offered

Our Company is initially offering 20,000,000 Shares at the Offer Price, representing 10% of the 200,000,000 Shares initially available under the Share Offer, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Public Offer will represent 2.5% of the total issued share capital of our Company immediately after completion of the Share Offer. The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Completion of the Public Offer is subject to the conditions set out in the paragraph headed “The Public Offer — Conditions of the Public Offer” in this section.

#### Conditions of the Public Offer

Acceptance of all applications for the Public Offer Shares in the Public Offer will be conditional on:

- (i) the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer (including any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme) (which shall in any event not be later than the 30th day after the date of this prospectus);
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the executive and delivery of the Placing Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming and remaining unconditional and not having been terminated in accordance with its respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be published by us in the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and us at [www.sthl.com.hk](http://www.sthl.com.hk) on the next day following such lapse. In such situation, all application monies will be refunded, without interest, on the terms set out in the section headed “How to apply for Public Offer Shares” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on the Listing Date provided that: (i) the Share Offer has become unconditional; and (ii) neither of the Underwriting Agreements has been terminated in accordance with the terms therein.

### Pricing

The Offer Price will not be more than HK\$0.34 per Offer Share and is expected to be not less than HK\$0.26 per Offer Share, unless otherwise announced, as further explained below. Applicants under the Public Offer must pay, on application, the maximum Offer Price of HK\$0.34 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$3,434.26 for one board lot of 10,000 Shares. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the minimum Offer Price stated in this prospectus.

The final Offer Price is expected to be determined by the Price Determination Agreement to be entered into between our Company and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) on the Price Determination Date. The Joint Bookrunners (for themselves and on behalf of the other Underwriters) may, with the consent of our Company, reduce the indicative Offer Price range below that stated in this prospectus at any time prior to the Price Determination Date, which is expected to be on or around Monday, 10 July 2017, or such other date as may be agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the other Underwriters). In such case, our Company will, as soon as practicable following the decision to make such reduction, publish the notice of such change on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of our Company at [www.sthl.com.hk](http://www.sthl.com.hk).

**If, for any reason, our Company and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) are unable to reach any agreement on the Offer Price by the Price Determination Date, the Share Offer will not become unconditional and will lapse immediately.**

### Allocation

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Multiple or suspected multiple applications under the Public Offer and any application for more than 20,000,000 Public Offer Shares, being the 100% of the Public Offer shares initially available under the Public Offer are liable to be rejected.

## **STRUCTURE AND CONDITIONS OF THE SHARE OFFER**

### **Reallocation**

The allocation of the Shares between the Public Offer and the Placing is subject to adjustment. If the number of Shares validly applied for in the Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Shares initially available under the Public Offer, the total number of Shares available under the Public Offer will be increased to 60,000,000, 80,000,000 and 100,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Shares initially available under the Share Offer. In such cases, the number of Shares allocated in the Placing will be correspondingly reduced, in such manner as the Joint Bookrunners deem appropriate.

If the Public Offer Shares are not fully subscribed, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Bookrunners deem appropriate. In addition, the Joint Bookrunners may reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer.

The Offer Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners.

### **Applications**

The Joint Bookrunners may require any investor who has been offered Shares under the Placing, and who has made an application under the Public Offer to provide sufficient information to the Joint Bookrunners so as to allow it to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application submitted by him that he and any person for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the Placing.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Public Offer.

## **THE PLACING**

### **Number of Offer Shares offered**

The number of Shares to be initially offered for subscription under the Placing will be 180,000,000 new Shares, representing 90% of the Offer Shares under the Share Offer. The Placing is subject to the Public Offer being unconditional.

## **STRUCTURE AND CONDITIONS OF THE SHARE OFFER**

### **Allocation**

Allocation of the Offer Shares pursuant to the Placing will be determined by the Joint Bookrunners and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell the Offer Shares after Listing. Such allocation may be made to professional, institutional and other investors and is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and our Shareholders as a whole.

### **SHARES WILL BE ELIGIBLE FOR CCASS**

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### **DEALING ARRANGEMENTS**

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 21 July 2017, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 21 July 2017. The Shares will be traded in board lots of 10,000 Shares.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

### 1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Sponsor, the Joint Bookrunners, the HK eIPO White Form Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Sponsor or the Joint Bookrunners may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** for the Public Offer Shares.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the GEM Listing Rules) of any of the above;
- a connected person (as defined in the GEM Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; or
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

### 3. APPLYING FOR PUBLIC OFFER SHARES

#### Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.hkeipo.hk](http://www.hkeipo.hk).

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Prospectus and Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 30 June 2017 until 12:00 noon on Friday, 7 July 2017 from:

- (i) the following office(s) of the Public Offer Underwriters:

<b>Public Offer Underwriters</b>	<b>Address</b>
Alliance Capital Partners Limited	Room 1502–1503A, Wing On House, 71 Des Voeux Road Central, Central, Hong Kong
Gransing Securities Co., Limited	17/F, Hing Yip Commercial Centre, 272–284 Des Voeux Road Central, Hong Kong
Guotai Junan Securities (Hong Kong) Limited	27/F, Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong
Caitong International Securities Co., Limited	Unit 2401–03, 24/F, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong

## HOW TO APPLY FOR PUBLIC OFFER SHARES

<b>Public Offer Underwriters</b>	<b>Address</b>
China Jianxin Financial Services Limited	Room 907, Wing On Centre, 111 Connaught Road Central, Hong Kong
Fulbright Securities Limited	33/F, Cosco Tower, Grand Millennium Plaza, 183 Queen's Road, Central, Hong Kong
Pacific Foundation Securities Limited	11/F, New World Tower II, 16-18 Queen's Road Central, Hong Kong
Quasar Securities Co., Limited	Unit A, 12/F, Harbour Commercial Building, 122-124 Connaught Road Central, Hong Kong
ZMF Asset Management Limited	Unit 2502, 25/F, World Wide House, 19 Des Voeux Road Central, Central, Hong Kong

(ii) any of the following branches of Standard Chartered Bank (Hong Kong) Limited:

<b>District</b>	<b>Branch Name</b>	<b>Address</b>
<b>Hong Kong Island</b>	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
	Hennessy Road Branch	399 Hennessy Road, Wanchai
<b>Kowloon</b>	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
	Telford Gardens Branch	Shop P9-12, Telford Centre, Telford Gardens, Tai Yip Street, Kwun Tong
<b>New Territories</b>	Metroplaza Branch	Shop No. 175, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 30 June 2017 until 12:00 noon on Friday, 7 July 2017 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

### Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "HORSFORD NOMINEES LIMITED — REACH NEW PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

**Friday, 30 June 2017 — 9:00 a.m. to 5:00 p.m.**  
**Monday, 3 July 2017 — 9:00 a.m. to 5:00 p.m.**  
**Tuesday, 4 July 2017 — 9:00 a.m. to 5:00 p.m.**  
**Wednesday, 5 July 2017 — 9:00 a.m. to 5:00 p.m.**  
**Thursday, 6 July 2017 — 9:00 a.m. to 5:00 p.m.**  
**Friday, 7 July 2017 — 9:00 a.m. to 12:00 noon**

The application for the Share Offer will commence on Friday, 30 June 2017 through Friday, 7 July 2017, being slightly longer than normal market practice of four days.

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 7 July 2017, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather on the opening of the application lists" in this section.

#### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form**, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Bookrunners (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;



## HOW TO APPLY FOR PUBLIC OFFER SHARES

- (vi) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Bookrunners and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

## HOW TO APPLY FOR PUBLIC OFFER SHARES

- (xvii) understand that our Company and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that
- (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and
  - (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional Instructions for Yellow Application Form**

You may refer to the **YELLOW** Application Form for details.

## **5. APPLYING THROUGH HK eIPO WHITE FORM**

### **General**

Individuals who meet the criteria in the paragraph headed “2. Who can apply” in this section, may apply through the **HK eIPO White Form** for the Offer Shares to be allotted and registered in their own names through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

Detailed instructions for application through the **HK eIPO White Form** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form**.

### **Time for Submitting Applications under the HK eIPO White Form**

You may submit your application through the **HK eIPO White Form** Service Provider at [www.hkeipo.hk](http://www.hkeipo.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 30 June 2017 until 11:30 a.m. on Friday, 7 July 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 7 July 2017 or such later time under the paragraph headed “10. Effect of bad weather on the opening of the application lists” in this section.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

### No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instructions** given by you or for your benefit through the **HK eIPO White Form** to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instructions** under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** or by any other means, all of your applications are liable to be rejected.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited  
Customer Service Center  
1/F, One & Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Joint Bookrunners and our Hong Kong Branch Share Registrar.

### **Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Public Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
  - (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

## HOW TO APPLY FOR PUBLIC OFFER SHARES

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Bookrunners, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each

## HOW TO APPLY FOR PUBLIC OFFER SHARES

of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Companies Ordinance and the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

### **Effect of Giving Electronic Application Instructions to HKSCC via CCASS**

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### **Minimum Purchase Amount and Permitted Numbers**

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 10,000 Public Offer Shares. Instructions for more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Friday, 30 June 2017 — 9:00 a.m. to 8:30 p.m.**<sup>(Note)</sup>  
**Monday, 3 July 2017 — 8:00 a.m. to 8:30 p.m.**<sup>(Note)</sup>  
**Tuesday, 4 July 2017 — 8:00 a.m. to 8:30 p.m.**<sup>(Note)</sup>  
**Wednesday, 5 July 2017 — 8:00 a.m. to 8:30 p.m.**<sup>(Note)</sup>  
**Thursday, 6 July 2017 — 8:00 a.m. to 8:30 p.m.**<sup>(Note)</sup>  
**Friday, 7 July 2017 — 8:00 a.m. to 12:00 noon**

*Note:* These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 30 June 2017 until 12:00 noon on Friday, 7 July 2017 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 7 July 2017, the last application day or such later time as described in the paragraph headed “10. Effect of bad weather on the opening of the application lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.



## HOW TO APPLY FOR PUBLIC OFFER SHARES

### 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Bookrunners, the Sole Sponsor and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 7 July 2017.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company, then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or



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- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** in respect of a minimum of 10,000 Public Offer Shares. Each application or **electronic application instructions** in respect of more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the section headed “Structure and conditions of the Share Offer” in this prospectus.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 7 July 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 7 July 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected timetable” in this prospectus, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Thursday, 20 July 2017 on our Company’s website at [www.sthl.com.hk](http://www.sthl.com.hk) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

## HOW TO APPLY FOR PUBLIC OFFER SHARES

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at [www.sthl.com.hk](http://www.sthl.com.hk) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m. on Thursday, 20 July 2017;
- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, 20 July 2017 to 12:00 midnight on Wednesday, 26 July 2017;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 20 July 2017 to Tuesday, 25 July 2017 (excluding Saturday and Sunday);
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 20 July 2017 to Saturday, 22 July 2017 at all the receiving bank's designated branches on a Business Day.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. For further details, please refer to the section headed "Structure and conditions of the Share Offer" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer shares will not be allotted to you:

#### (i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or through the **HK eIPO White Form**, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

## HOW TO APPLY FOR PUBLIC OFFER SHARES

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Sole Sponsor, the Joint Bookrunners, the HK eIPO White Form Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Public Offer Shares is void:**

The allotment of Public Offer Shares will be void if the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;

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- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Bookrunners believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 100% of the Public Offer Shares initially offered under the Public Offer.

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$0.34 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer set out in the section headed “Structure and conditions of the Share Offer — The Public Offer — Conditions of the Public Offer” in this prospectus are not fulfilled or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 20 July 2017.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

## HOW TO APPLY FOR PUBLIC OFFER SHARES

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or about Thursday, 20 July 2017. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 21 July 2017 provided that the Share Offer has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### ***(i) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 20 July 2017 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 20 July 2017, by ordinary post and at your own risk.

#### ***(ii) If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collection of refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 20 July 2017, by ordinary post and at your own risk.

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If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 20 July 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- If you apply through a designated CCASS participant (other than a CCASS investor participant)

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

- If you apply as a CCASS investor participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the paragraph headed "11. Publication of results" in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 20 July 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### *(iii) If you apply through the HK eIPO White Form*

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 20 July 2017, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 20 July 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

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### (iv) *If you apply via Electronic Application Instructions to HKSCC*

#### *Allocation of Public Offer Shares*

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

#### *Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 20 July 2017, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in the paragraph headed "11. Publication of results" in this section on Thursday, 20 July 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 20 July 2017 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 20 July 2017. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC

## HOW TO APPLY FOR PUBLIC OFFER SHARES

transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 20 July 2017.

### **15. ADMISSION OF THE SHARES INTO CCASS**

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

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

Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.



*The following is the text of a report set out on pages I-1 to I-42, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*

# Deloitte.

# 德勤

## ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF REACH NEW HOLDINGS LIMITED AND ALLIANCE CAPITAL PARTNERS LIMITED

### Introduction

We report on the historical financial information of Reach New Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-42, which comprises the consolidated statements of financial position as at 31 December 2015 and 31 December 2016, the statement of financial position of the Company as at 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the two years ended 31 December 2016 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-40 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 June 2017 (the "Prospectus") in connection with the initial listing of shares of the Company on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

### Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2015 and 31 December 2016, of the Company's financial position as at 31 December 2016 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

### **Report on matters under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

#### *Adjustments*

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

#### *Dividends*

We refer to note 10 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

#### *No historical financial statements for the Company*

No financial statements have been prepared for the Company since its date of incorporation.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong  
30 June 2017

**HISTORICAL FINANCIAL INFORMATION OF THE GROUP****Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on the audited consolidated financial statements of the Company for each of the two years ended 31 December 2015 and 2016 in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA ("Underlying Financial Statements"). The Underlying Financial Statements were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	<i>NOTES</i>	<b>Year ended 31 December</b>	
		<b>2015</b>	<b>2016</b>
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	5	95,609	105,199
Cost of sales		<u>(63,713)</u>	<u>(65,575)</u>
Gross profit		31,896	39,624
Other income and gains	6	138	1,371
Distribution and selling expenses		(5,602)	(5,036)
Administrative expenses		(17,736)	(18,319)
Listing expenses		<u>—</u>	<u>(2,294)</u>
Profit before tax		8,696	15,346
Income tax expense	7	<u>(2,582)</u>	<u>(5,715)</u>
Profit for the year		<u>6,114</u>	<u>9,631</u>
Earnings per share, basis ( <i>RMB cents</i> )	11	<u>1.02</u>	<u>1.61</u>

## STATEMENTS OF FINANCIAL POSITION

	NOTES	The Group		The Company
		As at 31 December		As at
		2015	2016	2016
		RMB'000	RMB'000	RMB'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	12	22,206	20,982	—
Intangible asset	13	145	118	—
Interests in subsidiaries	31	—	—	48,429
Prepayment to a related party	16(b)	2,295	—	—
		<u>24,646</u>	<u>21,100</u>	<u>48,429</u>
<b>CURRENT ASSETS</b>				
Inventories	14	2,257	3,187	—
Trade receivables	15	13,949	17,773	—
Prepayments and other receivables	15	2,441	2,011	1,261
Amount due from a related party	16(a)	2,000	—	—
Amount due from ultimate holding company	17	—	11	—
Wealth management products designated at fair value through profit or loss	20	6,000	—	—
Bank balances and cash	21	13,261	23,308	—
		<u>39,908</u>	<u>46,290</u>	<u>1,261</u>
<b>CURRENT LIABILITIES</b>				
Trade payables	22	7,212	10,862	—
Other payables	22	4,739	4,060	287
Receipt in advance		687	566	—
Trade payables to related parties	16(c)	2,221	—	—
Amounts due to related parties	16(a)	12,775	—	—
Amounts due to directors	19	—	4,321	—
Amounts due to subsidiaries	18	—	—	3,387
Tax payable		2,073	2,103	—
		<u>29,707</u>	<u>21,912</u>	<u>3,674</u>

	<i>NOTES</i>	<b>The Group</b>		<b>The</b>
		<b>As at 31 December</b>	<b>As at</b>	<b>Company</b>
		<b>2015</b>	<b>2016</b>	<b>As at</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<b>31 December</b>
				<b>2016</b>
				<i>RMB'000</i>
NET CURRENT ASSETS (LIABILITIES)		<u>10,201</u>	<u>24,378</u>	<u>(2,413)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>34,847</u>	<u>45,478</u>	<u>46,016</u>
NON-CURRENT LIABILITY				
Deferred tax liability	23	<u>—</u>	<u>1,000</u>	<u>—</u>
NET ASSETS		<u>34,847</u>	<u>44,478</u>	<u>46,016</u>
CAPITAL AND RESERVES				
Share capital	24	14,138	—	—
Reserves		<u>20,709</u>	<u>44,478</u>	<u>46,016</u>
NET EQUITY		<u>34,847</u>	<u>44,478</u>	<u>46,016</u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	<b>Share capital</b> <i>RMB'000</i>	<b>Other reserve</b> <i>RMB'000</i>	<b>Accumulated profits</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2015	14,138	7	14,588	28,733
Profit and total comprehensive income for the year	<u>—</u>	<u>—</u>	<u>6,114</u>	<u>6,114</u>
At 31 December 2015	14,138	7	20,702	34,847
Profit and total comprehensive income for the year	—	—	9,631	9,631
Transfer upon Group Reorganisation (as defined in note 1) ( <i>Note</i> )	<u>(14,138)</u>	<u>14,138</u>	<u>—</u>	<u>—</u>
At 31 December 2016	<u>—</u>	<u>14,145</u>	<u>30,333</u>	<u>44,478</u>

*Note:* As part of the Group Reorganisation (as defined in note 1), there are series of restructuring within the Group mainly involved interspersing investment holding entities between the operating subsidiaries and investment holding companies. The difference between the Company's share capital and the combined paid-in capital of 新天倫服裝配料(惠州)有限公司 ("STL Garment Accessories") and 新天倫服裝輔料(惠州)有限公司 ("STL Apparel Accessories") was credited to other reserve on 30 November 2016.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December	
	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>
OPERATING ACTIVITIES		
Profit before tax	8,696	15,346
Adjustments for:		
Depreciation of property, plant and equipment	3,431	5,060
Amortisation of an intangible asset	27	27
Allowance for doubtful debts	77	141
Allowance for inventories	101	8
Bank interest income	(57)	(34)
Gain on disposal of properties, plant and equipment	—	(996)
Fair value gain from wealth management products designated at fair value through profit or loss	—	(247)
	<u>12,275</u>	<u>19,305</u>
Operating cash flows before movements in working capital	12,275	19,305
Increase in inventories	(2,008)	(938)
Increase in trade receivables	(41)	(3,965)
Decrease (increase) in prepayments and other receivables	905	(1,600)
Increase in trade payables	562	3,650
Increase (decrease) in other payables	84	(679)
Increase (decrease) in receipt in advance	311	(121)
Increase (decrease) in trade payables to related parties	<u>1,022</u>	<u>(2,221)</u>
	13,110	13,431
Cash generated from operations	13,110	13,431
Income tax paid	<u>(1,180)</u>	<u>(4,685)</u>
	11,930	8,746
NET CASH FROM OPERATING ACTIVITIES	<u>11,930</u>	<u>8,746</u>



	<b>Year ended 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(1,581)	(5,136)
Bank interest received	57	34
Purchase of wealth management products designated at fair value through profit or loss	(3,000)	—
Proceeds on disposal of property, plant and equipment	—	4,591
Proceeds on disposal of wealth management products designated at fair value through profit or loss	—	6,247
Repayment from a third party	—	2,030
Advance to a third party	(2,030)	—
Advance to a related party	(2,000)	—
Repayment from a related party	—	2,000
Advance to ultimate holding company	—	(11)
Prepayment to a related party for purchase of property, plant and equipment	(2,295)	—
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<u>(10,849)</u>	<u>9,755</u>
<b>FINANCING ACTIVITIES</b>		
Advance from related parties	3,327	—
Advance from directors	—	5,659
Repayment to directors	—	(1,338)
Repayment to related parties	—	(12,775)
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<u>3,327</u>	<u>(8,454)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	4,408	10,047
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>8,853</u>	<u>13,261</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR,</b> representing bank balances and cash	<u><u>13,261</u></u>	<u><u>23,308</u></u>

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION****1. GENERAL, GROUP REORGANISATION AND BASIS OF PRESENTATION OF HISTORICAL FINANCIAL INFORMATION**

The Company was incorporated in the Cayman Islands as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 22 January 2016. Its registered office is located at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The address of its principal place of business is Sun Tin Lun Industrial Centre, No. 6 Tai Hao Road, Sandong Digital Industrial Park, Sandong Town, Huizhou City, Guangdong Province, China.

Prior to the group reorganisation as disclosed in the section headed "History, Development and Reorganisation" of the prospectus (the "Group Reorganisation"), Mr. Lam Cheung Chuen ("Mr. Lam") beneficially owned the entire 10,000 issued share capital of Reach New International Enterprises Limited ("Reach New", a former holding company not forming part of the Group), which was incorporated in Hong Kong and is principally engaged in investment holding, through his sons and daughter, Mr. Lam Kai Yuen ("Mr. Gabi Lam"), Mr. Lam Kai Cheong ("Mr. Jeffrey Lam") and Ms. Lam Man Yee, as trustee in respect of 4,000, 3,000 and 3,000 ordinary shares in Reach New, respectively. Reach New held the entire equity interests in STL Garment Accessories and STL Apparel Accessories prior to the Group Reorganisation. For the purpose of the listing of the Company's shares on the Stock Exchange, the Group underwent the Group Reorganisation as described below.

- (1) On 1 December 2015, Neo Concept was incorporated in the British Virgin Islands (the "BVI") with limited liability, allotted and issued one subscriber share with a par value of US\$1 as fully paid to Mr. Lam and the entire issued share capital of Neo Concept became wholly owned by Mr. Lam.
- (2) On 10 December 2015, each of Mr. Gabi Lam, Mr. Jeffrey Lam and Ms. Lam Man Yee executed an instrument of transfer in favour of Mr. Lam, pursuant to which each of them transferred back their respective shares in Reach New to Mr. Lam, thereby terminating the above trust arrangements. The entire issued share capital of Reach New then became legally and beneficially owned by Mr. Lam.
- (3) On 22 January 2016, the Company was incorporated in the Cayman Islands as an exempted company with limited liability, allotted and issued one subscriber share as fully paid to a nominee subscriber and the nominee subscriber as transferor then executed an instrument of transfer in favour of Neo Concept as transferee, pursuant to which the nominee subscriber transferred the one subscriber share, representing the entire issued share capital of the Company, to Neo Concept for a consideration of HK\$0.01. At the same date, the Company further allotted and issued 99 Shares as fully paid to Neo Concept. The entire issued share capital of the Company then became wholly owned by Neo Concept.
- (4) On 1 December 2015, New Forest Company Limited ("New Forest") was incorporated in BVI with limited liability. New Forest allotted and issued one subscriber share with a par value of US\$1 as fully paid to the Company on 23 January 2016. The entire issued share capital of New Forest then became wholly owned by the Company.
- (5) On 15 April 2016, Smart Trend Enterprises Company Limited ("Smart Trend") was incorporated in Hong Kong with limited liability and allotted and issued one subscriber share for a total consideration of HK\$1 as fully paid to New Forest. The entire issued share capital of Smart Trend then became wholly owned by New Forest.
- (6) On 20 September 2016, Reach New as transferor and Smart Trend as transferee entered into equity transfer agreements, pursuant to which Smart Trend acquired the entire equity interest in STL Garment Accessories and STL Apparel Accessories from Reach New, which was fully settled by Neo Concept through allotting and issuing 95 and 4 ordinary shares, respectively, credited as fully paid, to Mr. Lam, at the direction of Reach New.
- (7) Upon completion of the registration of the above equity transfers by the Administration for Industry and Commerce of Huizhou on 30 November 2016, STL Apparel Accessories and STL Garment Accessories became wholly owned subsidiaries of Smart Trend.

Pursuant to the Group Reorganisation detailed above, the Company has become the holding company of the companies now comprising the Group on 30 November 2016. The Company and its subsidiaries have been under the common control of Mr. Lam throughout the Track Record Period or since their respective dates of incorporation, where there is a shorter period. Accordingly, the Historical Financial Information has been prepared under the principles of merger accounting in accordance with the Accounting Guideline 5 “Merger Accounting For Common Control Combinations” issued by the HKICPA.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Track Record Period have been prepared to present the results and cash flows of the companies now comprising the Group, as if the current group structure had been in existence throughout the Track Record Period or since their respective dates of incorporation, where there is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2015 is prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence at those dates, taken into account the respective dates of incorporation, where applicable.

The functional currency of the Company and its subsidiaries is RMB which is also the presentation currency of the Group.

The Historical Financial Information has been prepared in conformity with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong and by the Hong Kong Companies Ordinance.

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently adopted all HKFRSs issued by HKICPA which are effective for annual periods beginning on 1 January 2016 throughout the Track Record Period.

At the date of this report, the following new standards and amendments have been issued but are not yet effective. The Group has not early applied these standards and amendments.

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 7	Disclosure Initiative <sup>4</sup>
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>4</sup>
Amendments to HKAS 40	Transfer of Investment Property <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

**HKFRS 9 *Financial Instruments***

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKFRS 9 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a financial impact on amounts reported in respect of the Group's financial assets (e.g. the impairment on receivables) based on expected credit loss model. Currently, the directors of the Company is in the midst of assessing the financial impact of the application of HKFRS 9 and a reasonable estimate of the effect will be available once the detailed review is completed.

**HKFRS 15 Revenue from Contracts with Customers**

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licencing application guidance.

The Group has performed a review of the existing contractual arrangement with its customers and the directors of the Company do not expect the adoption of HKFRS 15 would result in significant impact on the revenue recognition of its sales activities and the financial statements in future.

**HKFRS 16 Leases**

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB7,051,000 as disclosed in note 27. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Except as described above, the directors of the Company anticipate that the application of the other new and amendments to HKFRSs will have no material impact on the Group's financial performance and positions and/or the disclosures to the financial statements of the Group in future.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in conformity with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis except for the financial assets designated at fair value through profit or loss that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for leasing transactions that are within the scope of HKAS 17 *Leases* and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

#### **Basis of consolidation**

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

#### **Merger accounting for business combination involving businesses under common control**

The Historical Financial Information incorporates the financial information of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining business first came under the control of the controlling entity.

The net assets of the combining businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

#### **Interests in subsidiaries**

Interests in subsidiaries included in the Company's statement of financial position is stated at cost less any identified impairment loss.

The result of the subsidiaries are accounted for on the basis of dividend received and receivable during the Track Record Period.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Leasing**

Leases are classified as finance leases whenever the terms of lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessee*

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

**Leasehold land and building**

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating lease in which the entire lease is classified as operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

**Foreign currencies**

In preparing the financial statements of a group entity, transactions in currencies other than the entity's functional currency (foreign currency) are recognised at the rates of exchange prevailing at the dates of the transactions.

At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

**Retirement benefit costs**

Payments to the defined contribution retirement benefit plans including state-managed retirement benefit schemes in the People's Republic of China (the "PRC") and Mandatory Provident Fund Scheme in Hong Kong are recognised as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all



deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss.

#### **Property, plant and equipment**

Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### **Intangible assets**

##### *Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sales.

**Financial instruments**

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

**Financial assets**

Financial assets are classified into the following specified categories: financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is held for trading or designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition, it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the other income and gains. Fair value is determined in the manner described in note 26.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amount due from a related party, amount due from ultimate holding company and bank balances and cash are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate.

#### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period ranged from 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### **Financial liabilities and equity instruments**

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

*Financial liabilities at amortised cost*

Financial liabilities including trade payables, other payables, receipt in advance, trade payables to related parties, amounts due to related parties, amounts due to directors and amounts due to subsidiaries are subsequently measured at amortised cost, using the effective interest method.

**Derecognition**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Intangible assets***Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

**Impairment losses on tangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill, if any, and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal, its value in use and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### **4. KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies which are described in note 3, the directors of the Company is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year from end of each reporting period.

#### **Useful lives and impairment assessment of property, plant and equipment**

Property, plant and equipment are stated in the consolidated statements of financial position at cost less accumulated depreciation and identified impairment losses. The estimation of their useful lives impacts the level of annual depreciation expenses recorded. Property, plant and equipment are evaluated for possible impairment on an individual asset basis or in groups of similar assets, as applicable. This process requires management's estimate of futures cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the appropriate asset's carrying amounts are written down to the recoverable amount and the amount of the write-down is charged to profit or loss. As at 31 December 2015 and 2016, the carrying amount of property, plant and equipment of the Group is approximately RMB22,206,000 (without accumulated impairment loss) and RMB20,982,000 (without accumulated impairment loss), respectively.

**Estimated impairment of trade receivables**

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of trade receivables as at 31 December 2015 and 2016 was approximately RMB13,949,000 and RMB17,773,000, respectively, net of allowance of doubtful debts of approximately RMB77,000 and RMB218,000, respectively.

**Net realisable value of inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated variable selling expenses. The cost of inventories is written down to net realisable value when there is objective evidence that the cost of inventories may not be recoverable. The amount written off to the profit or loss is the difference between the carrying value and net realisable value of the inventories. In determining whether the cost of inventories can be recovered, significant judgements are required. In making this judgement, the Group evaluates, among other factors, the duration and extent and the means by which the amount will be recovered. These estimates are based on the current market conditions and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in customer preference and competitor actions in response to market conditions. As at 31 December 2015 and 2016, the carrying amount of inventories is approximately RMB2,257,000, net of write-down of inventory of RMB101,000 and RMB3,187,000, net of write-down of inventory of RMB109,000, respectively.

**5. REVENUE AND SEGMENT INFORMATION**

The following is an analysis of the Group's revenue from its major products during the Track Record Period:

	<b>Year ended 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of printed products	49,828	51,400
Sales of woven labels	28,428	28,395
Sales of printed labels	13,664	19,741
Others	<u>3,689</u>	<u>5,663</u>
	<u>95,609</u>	<u>105,199</u>

Information reported to the Chief Executive Officer ("CEO") of the Group, being the chief operating decision maker ("CODM") regularly review revenue analysis by major products as set out in the revenue analysis above for the purpose of resource allocation and assessment of performance. However, other than revenue analysis, no operating results and other discrete Historical Financial Information is regularly reviewed by the CODM for the purpose of resource allocation and assessment of performance of respective businesses which generate different types of revenue. The CODM review the operating results of the Group as a whole to make decisions about resource allocation and for performance assessment. The operation of the Group constitutes one single operating and reportable segment under HKFRS 8 "Operating Segments" and accordingly no separate segment information is presented.

**Geographical information***Revenue by geographical location*

The Group's operations are located in the PRC. All of the Group's non-current assets and capital expenditure are located or utilised in the PRC.

**Information about major customers**

Revenue from a customer that individually contributing over 10% of the total sales of the Group for each of the reporting period comprising the Track Record Period are as follows:

	<b>Year ended 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	14,515	15,207

**6. OTHER INCOME AND GAINS**

	<b>Year ended 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Bank interest income	57	34
Government subsidies	33	1
Gain on disposal of properties, plant and equipment	—	996
Fair value gain from wealth management products	—	247
Others	48	93
	<u>138</u>	<u>1,371</u>

**7. INCOME TAX EXPENSE**

	<b>Year ended 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax:		
Provision for the year	2,278	4,788
Under (over) provision in prior years	304	(73)
	<u>2,582</u>	<u>4,715</u>
Deferred tax ( <i>Note 23</i> ) — current year	—	1,000
	<u>2,582</u>	<u>5,715</u>

The Group is not subject to any income tax in the Cayman Islands and the BVI pursuant to the rules and regulations in those jurisdictions.

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits derived from or earned in Hong Kong for the Track Record Period.

The Group is subject to PRC Enterprise Income Tax ("PRC EIT") at a rate of 25% and dividend withholding tax at a rate of 10% for the Track Record Period.

Current tax provision represents provision for PRC EIT.

The income tax expense for the Track Record Period can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2015 RMB'000	2016 RMB'000
Profit before tax	8,696	15,346
Tax at the PRC EIT rate of 25%	2,174	3,837
Tax effect of income not taxable for tax purpose	(16)	(8)
Tax effect of expenses not deductible for tax purpose	120	959
Deferred withholding tax on distributable profits of a subsidiary	—	1,000
Under (over) provision in prior years	304	(73)
Tax expense for the year	2,582	5,715

#### 8. PROFIT FOR THE YEAR

	Year ended 31 December	
	2015 RMB'000	2016 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration ( <i>Note 10</i> )	360	584
Other staff costs		
— salaries and wages	24,456	26,051
— retirement benefits scheme contribution excluding directors	2,687	3,178
Total directors and other staff costs	27,503	29,813
Allowance for doubtful debts	77	141
Auditor's remuneration	285	277
Cost of inventories recognised as expense	29,759	33,226
Depreciation	3,431	5,060
Amortisation of an intangible asset (included in administrative expenses)	27	27
Minimum lease payments under operating leases	3,743	2,762
Write-down of inventories	101	8



## 9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION

## Directors' and chief executive's emoluments

Mr. Lam, was appointed as a non-executive director of the Company on 22 January 2016. Mr. Gabi Lam and Mr. Jeffrey Lam were appointed as executive directors of the Company on 22 January 2016. Mr. Gabi Lam was also appointed as the chief executive officer of the Company on 22 January 2016. Details of the emoluments paid or payable to these directors (including emoluments for the services as the directors of the group entities prior to becoming the director of the Company) during the Track Record Period are as follows:

	Fee <i>RMB'000</i>	Salaries, allowance and benefits in kind <i>RMB'000</i>	Retirement benefits scheme contribution <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Year ended 31 December 2015</b>				
Executive directors				
Mr. Gabi Lam ( <i>Note</i> )	—	360	—	360
Mr. Jeffrey Lam ( <i>Note</i> )	—	—	—	—
	—	360	—	360
Non-executive director				
Mr. Lam ( <i>Note</i> )	—	—	—	—
<b>Year ended 31 December 2016</b>				
Executive directors				
Mr. Gabi Lam	—	304	8	312
Mr. Jeffrey Lam	—	120	6	126
	—	424	14	438
Non-executive director				
Mr. Lam	—	140	6	146

*Note:* Except for the rental allowance of RMB360,000 has been paid to Mr. Gabi Lam, there was no other emoluments paid or payable by the Group to the directors of the Company in 2015.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Group for the Track Record Period.

The non-executive director's emoluments shown above were for his service as director of the Company or its subsidiaries.

No executive directors of the Group is entitled to bonus payments during the Track Record Period.

In addition to above, the Group provided its property as accommodation to Mr. Jeffrey Lam at rent-free from January 2015 to September 2016. This property was disposed to Mr. Jeffrey Lam in September 2016 and details are set out in note 12.

**Employees' remuneration**

The five highest paid individuals of the Group included 1 and 2 directors for each of the years ended 31 December 2015 and 2016, respectively, details of their emoluments are set out above. The remaining 4 and 3 individuals for each of the years ended 31 December 2015 and 2016, respectively, are as follows:

	Year ended 31 December	
	2015	2016
	RMB'000	RMB'000
Salaries and allowances	951	1,057
Retirement benefits scheme contribution	<u>37</u>	<u>30</u>
	<u>988</u>	<u>1,087</u>

Their emoluments were fell within the following bands:

	2015	2016
	Number of employees	Number of employees
Nil to HK\$1,000,000 (Equivalent to Nil to RMB800,000)	<u>4</u>	<u>3</u>

During the Track Record Period, no emoluments were paid by the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the Track Record Period.

**10. DIVIDEND**

No dividend has been declared by the Company since its incorporation or by other companies now comprising the Group for each of the years ended 31 December 2015 and 2016.

**11. EARNINGS PER SHARE**

	2015	2016
	RMB'000	RMB'000
Earnings:		
Earnings for the purpose of calculating basic earnings per share	<u>6,114</u>	<u>9,631</u>
	'000	'000
Number of shares ( <i>Note</i> ):		
Number of ordinary shares for the purpose of calculating basic earnings per share	<u>600,000</u>	<u>600,000</u>

*Note:* The number of shares for the purpose of basic earnings per share has been determined on the assumption that the Group Reorganisation and the capitalisation issue as described in the paragraph headed "A. Further information about our Group — 6. Written resolutions of our Sole Shareholder passed on 24 June 2017" in Appendix IV to the prospectus has been effective on 1 January 2015.

No diluted earnings per share is presented for the Track Record Period as there is no potential ordinary share in issue.

## 12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and Building RMB'000	Leasehold improvements RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Furnitures and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 1 January 2015	3,247	12,277	27,404	1,038	4,542	976	123	49,607
Additions	—	—	528	675	208	6	164	1,581
Transfer	—	—	287	—	—	—	(287)	—
At 31 December 2015	3,247	12,277	28,219	1,713	4,750	982	—	51,188
Additions	—	—	7,216	—	215	—	—	7,431
Disposal	(3,247)	—	(2,428)	(105)	(44)	(15)	—	(5,839)
At 31 December 2016	—	12,277	33,007	1,608	4,921	967	—	52,780
ACCUMULATED DEPRECIATION								
At 1 January 2015	353	2,165	19,831	695	2,050	457	—	25,551
Provided for the year	146	1,228	895	139	851	172	—	3,431
At 31 December 2015	499	3,393	20,726	834	2,901	629	—	28,982
Provided for the period	110	1,228	2,505	181	864	172	—	5,060
Eliminated on disposal	(609)	—	(1,487)	(95)	(40)	(13)	—	(2,244)
At 31 December 2016	—	4,621	21,744	920	3,725	788	—	31,798
CARRYING VALUES								
At 31 December 2015	2,748	8,884	7,493	879	1,849	353	—	22,206
At 31 December 2016	—	7,656	11,263	688	1,196	179	—	20,982

The leasehold land and building represented a residential apartment located in the PRC and acted as a director's quarters to Mr. Jeffrey Lam. The leasehold land is held for medium term. During the year of 2016, the building has been disposed to Mr. Jeffrey Lam at consideration of RMB3,519,000, which is determined by the valuation report carried out by 惠州可道資產評估有限公司, situated in 廣東省惠州市江北東江二路二號富力麗港中心酒店4層16號, an independent PRC qualified professional valuer governed by China Appraised Society not connected with the Group.

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and building	5%
Leasehold improvements	10%
Machinery	10%–100%
Motor vehicles	20%
Office equipment	20%
Furnitures and fixtures	20%

## 13. INTANGIBLE ASSET

	<i>RMB'000</i>
COST	
At 1 January 2015, 31 December 2015 and 31 December 2016	288
AMORTISATION	
At 1 January 2015	116
Provided for the year	27
At 31 December 2015	143
Provided for the year	27
At 31 December 2016	170
CARRYING VALUES	
At 31 December 2015	145
At 31 December 2016	118

The intangibles asset represents a computer software acquired from an independent third party, which has finite useful lives of 10 years and is amortised on a straight-line basis.

## 14. INVENTORIES

	As at 31 December	
	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	1,485	2,352
Work in progress	297	343
Finished goods	475	492
	<u>2,257</u>	<u>3,187</u>

## 15. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	The Group		The Company
	As at 31 December		As at
	2015	2016	31 December
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	14,026	17,991	—
Less: allowance for doubtful debts	(77)	(218)	—
	<u>13,949</u>	<u>17,773</u>	<u>—</u>
Other receivables ( <i>Note</i> )	2,271	194	—
Prepayment	170	1,025	469
Deferred listing expense	—	792	792
	<u>2,441</u>	<u>2,011</u>	<u>1,261</u>

*Note:* Included in the other receivables, as at 31 December 2015, RMB2,030,000 was an amount due from a third party, in which brother of sister in law of Mr. Lam has equity interest. The amount was unsecured, non-trade nature, interest-free and recoverable on demand. This entire amount has been settled during the year 2016.

The Group allows credit periods ranging from 30 to 90 days to its trade customers. Before accepting any new customer, the Group makes enquiries to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customer are reviewed annually. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	As at 31 December	
	2015	2016
	RMB'000	RMB'000
Within 90 days	12,329	16,181
91–180 days	1,253	908
181–360 days	<u>367</u>	<u>684</u>
	<u>13,949</u>	<u>17,773</u>

Included in the Group's trade receivables balance are debtors as at 31 December 2015 and 2016 with an aggregate carrying amount of approximately RMB3,218,000 and RMB3,061,000 respectively which are past due as at the end of reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due based on invoice date but not impaired:

	As at 31 December	
	2015	2016
	RMB'000	RMB'000
Within 90 days	2,750	2,223
91–180 days	101	154
181–360 days	<u>367</u>	<u>684</u>
	<u>3,218</u>	<u>3,061</u>

The Group has provided fully for all receivables over 360 days because historical experience is such that receivables that are past due beyond 360 days are generally not recoverable.

#### Movement in the allowance for trade receivables

	2015	2016
	RMB'000	RMB'000
Balance at beginning of the year	—	77
Impairment losses recognised on receivables	<u>77</u>	<u>141</u>
Balance at end of the year	<u>77</u>	<u>218</u>

## 16. AMOUNTS DUE FROM (TO), PREPAYMENT TO AND TRADE PAYABLES TO RELATED PARTIES

## (a) Amounts due from (to) related parties

Amounts due from (to) related parties are as follows:

			Maximum amounts outstanding during the year ended	
	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000
Amount due from 惠州市獎門人飲食 文化有限公司 (Note a)	2,000	—	2,000	2,000
Amounts due to related parties				
— 多悅織造(惠州)有限公司 (Formerly known as 新天倫織造(惠州)有限公司 ("DY Weaving") (Note b))	3,655	—		
— 多悅服飾(惠州)有限公司 (Formerly known as 新天倫服飾(惠州)有限公司 ("DY Apparel") (Note b))	9,120	—		
	<u>12,775</u>	<u>—</u>		

Notes:

- (a) The amount is unsecured, non-trade nature, interest-free and recoverable on demand. Mr. Lam has beneficial interest in this company. This amount has been settled in 2016.
- (b) The amounts are unsecured, non-trade nature, interest-free and repayable on demand. Mr. Lam had beneficial interests in these companies and ceased to have any interests upon disposal of his entire interests in these companies to a sibling of his wife, a third party on 26 May 2016.

## (b) Prepayment to a related party

As at 31 December 2015, the amount represented the prepayment for purchase of property, plant and equipment to a related party, 蘇州多悅服飾有限公司 (formerly known as 蘇州新天倫服飾有限公司) ("Suzhou Duoyue Garment"). Mr. Lam had beneficial interest in this company and ceased to have any interest in this company upon disposal of his entire interest to a sibling of his wife, a third party on 22 February 2016.

As at 31 December 2016, there is no prepayment to this company.

**(c) Trade payables to related parties**

The amounts are unsecured, interest-free and repayable within 60 days. Ageing analysis of trade payables to related parties is presented based on the invoice date at the end of the reporting period as follows:

	As at 31 December	
	2015	2016
	RMB'000	RMB'000
Within 60 days	595	—
61–90 days	532	—
91–180 days	—	—
181–360 days	—	—
Over 360 days	1,094	—
	<u>2,221</u>	<u>—</u>

Trade payables to related parties are as follows:

	As at 31 December	
	2015	2016
	RMB'000	RMB'000
DY Weaving	330	—
DY Apparel	1,528	—
Suzhou Duoyue Garment	363	—
	<u>2,221</u>	<u>—</u>

**17. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY**

The amount is unsecured, non-trade nature, interest-free and recoverable on demand. The maximum outstanding amount during the year ended 2016 is RMB11,000.

**18. AMOUNTS DUE TO SUBSIDIARIES**

The amounts are unsecured, non-trade nature, interest-free and repayable on demand.

**19. AMOUNTS DUE TO DIRECTORS**

The amounts represent the advances from Mr. Lam and Mr. Gabi Lam, directors of the Company. The amounts are unsecured, non-trade nature, interest-free and repayable on demand.

This amount has been settled after 31 December 2016.

**20. WEALTH MANAGEMENT PRODUCTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**

	As at 31 December	
	2015	2016
	RMB'000	RMB'000
Wealth management products — at fair value	6,000	—

The wealth management products are issued by financial institutions in which the principal amount and investment return are unsecured, unguaranteed and carry at a variable rate of return based on the performance of underlying investment portfolio.

The directors of the Company considered that the change of fair value of the wealth management products is immaterial, therefore, such amount is not recognised in profit or loss for 2015. The entire wealth management products has been redeemed during 2016. Details of the fair value measurement are set out in note 26.

**21. BANK BALANCES AND CASH**

Bank balances carry interest at prevailing market rates at 0.35% per annum as at 31 December 2015 and 2016.

**22. TRADE AND OTHER PAYABLES**

	The Group		The Company
	As at 31 December		As at
	2015	2016	31 December
	RMB'000	RMB'000	2016
			RMB'000
Trade payables	7,212	10,862	—
Other payables	2,172	2,252	287
Other accrued expenses	2,567	1,808	—
	4,739	4,060	287

The credit period on trade payables ranges from 30 to 90 days. The ageing analysis of the Group's trade payables below is presented based on the invoice date at the end of the reporting period:

	As at 31 December	
	2015	2016
	RMB'000	RMB'000
Within 90 days	6,443	7,509
91–180 days	168	2,342
181–360 days	416	652
Over 1 year	185	359
	7,212	10,862



**23. DEFERRED TAX LIABILITY**

The following is the deferred tax liability recognised and movements thereon during the Track Record Period:

	<b>Withholding tax on distributable profits RMB'000</b>
At 1 January 2015, 31 December 2015	—
Charge to profit or loss ( <i>Note 7</i> )	<u>1,000</u>
At 31 December 2016	<u><u>1,000</u></u>

Under the Law of the PRC on Enterprise Income Tax, withholding tax ranged from 5% to 10% is proposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards.

As at 31 December 2016, deferred tax liability amounting to RMB1,000,000 has been provided for in respect of temporary differences attributable to profit of a PRC subsidiary of RMB18,500,000, as the Group expected such amount would be distributed by the PRC subsidiary to a non-PRC tax resident subsidiary in 2017.

Deferred tax has not been provided for temporary differences attributable to the remaining accumulated undistributed profits of two PRC subsidiaries amounting to an aggregate amount of RMB21,453,000 and RMB35,202,000 for the years ended 31 December 2015 and 2016, respectively as the directors of the Group do not expect to declare any additional dividends apart from RMB18,500,000 as mentioned above and the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

**24. SHARE CAPITAL**

For the purpose of the Historical Financial Information, share capital as at 1 January 2015 and 31 December 2015 represented the aggregate paid up capital of STL Garment Accessories and STL Apparel Accessories. Share capital as at 31 December 2016 represented the share capital of the Company.

	<i>Number of shares</i>	<i>HK\$</i>
Ordinary shares of HK\$0.01 each		
<b>Authorised:</b>		
At 22 January 2016 (date of incorporation) and 31 December 2016	<u>50,000</u>	<u>500</u>
<b>Issued and fully paid:</b>		
At 22 January 2016 (date of incorporation) and 31 December 2016	<u>100</u>	<u>1</u>
		<i>RMB'000</i>
Shown in the consolidated financial statements as		<u><u>—</u></u>

On 22 January 2016, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of HK\$500 divided into 50,000 shares of HK\$0.01 each. The Company allotted and issued one subscriber share as fully paid to a nominee subscriber and the nominee subscriber as transferor then executed an instrument of transfer in favour of Neo Concept as transferee, pursuant to which the nominee subscriber transferred the one subscriber share, representing the entire issued share capital of the Company, to Neo Concept for a consideration of HK\$0.01. At the same date, the Company further allotted and issued 99 shares as fully paid to Neo Concept.

**25. CAPITAL RISK MANAGEMENT**

The Company manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of debt, which includes amounts due to related parties and trade payables to related parties, as disclosed in notes 16(a) and 16(c), respectively, net of cash and cash equivalents and equity.

The capital structure of the Company includes amounts due to subsidiaries and equity.

The management of the Group reviews the capital structure from time to time. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares, new debts or the redemption of existing debts.

**26. FINANCIAL INSTRUMENTS****a. Categories of financial instruments**

	<b>As at 31 December</b>	
	<b>2015</b>	<b>2016</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>The Group</b>		
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	31,481	41,286
Wealth management products designated at fair value through profit or loss	<u>6,000</u>	<u>—</u>
<b>Financial liabilities</b>		
Amortised cost	<u>25,067</u>	<u>18,001</u>
<b>The Company</b>		
<b>Financial liabilities</b>		
Amortised cost	<u>N/A</u>	<u>3,674</u>

**b. Financial risk management objectives and policies**

The Group's major financial instruments include financial assets designated at fair value through profit or loss, trade and other receivables, amounts due from (to) related parties, trade payables to related parties, amounts due to directors, bank balances and cash and trade and other payables. The Company's financial instruments include amounts due to subsidiaries and other payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (interest rate risk and foreign currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risks**

The Group's and the Company's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. Details of each type of market risks are described as follows:

*(i) Interest rate risk management*

The Group and the Company are exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group's and the Company treasury policy is in place to monitor and manage its exposure to fluctuation in interest rates.

The directors of the Company consider that the overall interest rate risk is not significant as all the bank deposits are short term. Accordingly, no sensitivity analysis is prepared in this report.

*(ii) Foreign currency risk*

The Group and the Company do not expose to foreign currency risk as all sales and purchases as well as the monetary liabilities of the Group and the Company are in RMB for the years ended 31 December 2015 and 2016.

**Liquidity risk**

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of amounts due to related parties and subsidiaries.

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is derived from weighted average interest rate at the end of the reporting period.

	<b>Weighted average effective interest rate</b> %	<b>Repayment on demand or less than 3 months</b> RMB'000	<b>Total undiscounted cash flows</b> RMB'000	<b>Carrying amount</b> RMB'000
<b>The Group</b>				
<i>As at 31 December 2015</i>				
<b>Non-derivative financial liabilities</b>				
Trade and other payables	—	9,384	9,384	9,384
Trade payables to related parties	—	2,221	2,221	2,221
Amounts due to related parties	—	12,775	12,775	12,775
Receipt in advance	—	<u>687</u>	<u>687</u>	<u>687</u>
		<u>25,067</u>	<u>25,067</u>	<u>25,067</u>
<i>As at 31 December 2016</i>				
<b>Non-derivative financial liabilities</b>				
Trade and other payables	—	13,114	13,114	13,114
Amounts due to directors	—	4,321	4,321	4,321
Receipt in advance	—	<u>566</u>	<u>566</u>	<u>566</u>
		<u>18,001</u>	<u>18,001</u>	<u>18,001</u>

	Weighted average effective interest rate %	Repayment on demand or less than 3 months RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
<b>The Company</b>				
<i>As at 31 December 2016</i>				
<b>Non-derivative financial liabilities</b>				
Other payables	—	287	287	287
Amounts due to subsidiaries	—	<u>3,387</u>	<u>3,387</u>	<u>3,387</u>
		<u>3,674</u>	<u>3,674</u>	<u>3,674</u>

**Credit risk**

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statements of financial position. The Group's credit risk is primarily attributable to its trade receivables, financial assets designated at fair value through profit or loss and bank balances.

The Company's maximum exposure to credit risk in the event of the Counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. The Company's credit risk is primarily attributable to its bank balances and other receivables.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In addition, the Group reviews the recoverable amount of each individual material trade and other receivable at the end of each reporting period to ensure that adequate allowance are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

The credit risk on wealth management products is limited because the products are issued by reputable financial institutions and the entire amount has been received during 2016.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has concentration of credit risk as the top five trade debtors accounted for approximately 40% and 37% of its total trade debts balance as at 31 December 2015 and 2016, respectively. In view of this, the management regularly visit these customers to understand their business operations and cash flow positions. In this regards, management considers that the credit concentration risk has been significantly mitigated.

The Group has concentration of credit risk in respect of an amount due from a related party. However, the management considers the risk associated with such amount is minimal and the entire amount has been settled during 2016.

## c. Fair value measurements of financial instruments

## (i) Fair value of the Group's and the Company's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each Track Record Period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used) as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observables.

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair values measurements are those derived from valuation techniques that included inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31/12/2015	31/12/2016		
	RMB'000	RMB'000		
Wealth management products designated at fair value through profit or loss in the consolidated statement of financial position	6,000	Nil	Level 3	Income approach — in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the wealth management products, based on an appropriate discount rate.  Future economic benefits are estimated based on estimated rates of return which is based on the return from the underlying investments portfolio managed by respective financial institutions.

Fair value hierarchy as at 31 December 2015

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Wealth management products	—	—	6,000	6,000

The fair values of the financial assets included in the Level 3 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

(ii) *Reconciliation of Level 3 fair value measurements*

	Wealth management products	
	2015	2016
	RMB'000	RMB'000
At 1 January	3,000	6,000
Total gains in profit or loss	—	247
Purchases	3,000	—
Settlement received	—	(6,247)
	<u>—</u>	<u>(6,247)</u>
At 31 December	<u>6,000</u>	<u>—</u>

d. **Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)**

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values at the end of each reporting period.

## 27. OPERATING LEASE COMMITMENTS

## As lessee

	As at 31 December	
	2015	2016
	RMB'000	RMB'000
Minimum lease payments under operating leases during the year in respect of premises owed by		
— related parties	3,708	2,727
— independent third parties	<u>35</u>	<u>35</u>
	<u>3,743</u>	<u>2,762</u>

At the end of 2015, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises for factory, office and director and staff quarters which fall due as follows:

	As at 31 December 2015		
	Premises owned by related parties	Premises owed by independent third party	Total
	RMB'000	RMB'000	RMB'000
Within one year	3,708	60	3,768
In the second to fifth years inclusive	<u>—</u>	<u>210</u>	<u>210</u>
	<u>3,708</u>	<u>270</u>	<u>3,978</u>

At the end of 2016, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises for factory and office which fall due as follows:

	As at 31 December 2016		Total RMB'000
	Premises owned by related parties RMB'000	Premises owed by independent third party RMB'000	
Within one year	2,726	60	2,786
In the second to fifth years inclusive	<u>4,235</u>	<u>30</u>	<u>4,265</u>
	<u>6,961</u>	<u>90</u>	<u>7,051</u>

Operating lease payments represent rentals payable to related parties and independent third parties by the Group for certain of its premises. Leases are negotiated for terms ranging from two to three years and rentals are fixed over the terms of the leases.

## 28. EMPLOYEE BENEFITS

### Hong Kong

The Group participates in Mandatory Provident Fund Scheme ("MPF Scheme") for all its qualifying employees from year 2016. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of an independent trustee. During the year ended 31 December 2016, the retirement benefits scheme contribution arising from the MPF Scheme charged to profit or loss was approximately RMB54,000.

### The PRC

In accordance with the relevant rules and regulations of the PRC, the Group's PRC subsidiaries are required to make contributions to the retirement fund administered by the PRC government at 13% of the total monthly basic salaries of the current employees.

In addition, the Group's PRC subsidiaries are required by law to contribute 13.5% to 21.5% of basic salaries of the employees for social insurance in relating to staff welfare, medical, work injury and unemployment.

During the years ended 31 December 2015 and 2016, the costs charged under such arrangements for the Group's PRC subsidiaries amounted to approximately RMB2,687,000 and RMB3,144,000 respectively.

## 29. RELATED PARTY TRANSACTIONS

Apart from details of the balances with related parties disclosed in the Historical Financial Information, the Group also entered into the following transactions with related parties during the Track Record Period:

Name of related company/party	Note	Nature of transactions	2015 RMB'000	2016 RMB'000
蘇州工業園區史威特服飾有限公司 (Suzhou Sweater*)	(i)	Sales	26	—
DY Weaving	(iv)	Purchase of raw material	848	—
DY Apparel	(iv)	Purchase of raw material	6,427	—
Suzhou Duoyue Garment	(v)	Purchase of raw material	657	—
Suzhou Duoyue Garment	(v)	Sub-contracting fee	30	—
DY Weaving	(iv)	Sub-contracting fee	523	—
DY Apparel	(iv)	Sub-contracting fee	2,229	—
史威特服飾(惠州)有限公司 (Sweater Garment (Huizhou)*)	(i)	Rental paid	3,288	2,692
Mr. Gabi Lam	(ii)	Rental paid	360	30
Miss Lam Man Yee	(iii)	Rental paid	60	5
DY Weaving	(iv)	Sales	—	20
DY Apparel	(iv)	Sales	267	7
Suzhou Duoyue Garment	(v)	Purchase of property, plant and equipment	—	2,295
DY Apparel	(iv)	Purchase of property, plant and equipment	—	1,613
DY Weaving	(iv)	Purchase of property, plant and equipment	—	2,740

\* For identification purpose only

## Notes:

- (i) Mr. Lam, has beneficial interest in these companies.
- (ii) Mr. Gabi Lam is a director of this company.
- (iii) Ms. Lam Man Yee is a close family member of the directors of this company.
- (iv) Mr. Lam, had beneficial interests in these companies up to 26 May 2016.
- (v) Mr. Lam, had beneficial interest in this company up to 22 February 2016.

The Group provided its property as director quarters to Mr. Jeffrey Lam from January 2015 to September 2016 as set out in note 12.

On 21 September 2016, this property has been disposed to Mr. Jeffrey Lam at consideration of RMB3,519,000, which is determined by the valuation report carried out by 惠州可道資產評估有限公司, situated in 廣東省惠州市江北東江二路二號富力麗港中心酒店4層16號, an independent qualified professional valuer governed by China Appraisal Society not connected with the Group.



**Compensation of key management personnel**

The remuneration of key management personnel during the year was approximately RMB1,087,000 (2015: approximately RMB988,000) which is determined by reference to the performance of individuals and market trends.

No short-term employee benefits, post-employment benefits, other long term benefits and termination benefits are paid or payable to the key management personnel.

Balances with related companies are disclosed in the consolidated statement of financial position and notes 16, 17, 18 and 19.

**30. RESERVES OF THE COMPANY****Movement in the Company's reserves**

	<b>Accumulated loss</b>	<b>Capital reserve</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 22 January 2016 (date of incorporation)	—	—	—
Reserve arising from Group Reorganisation	—	48,429	48,429
Loss and total comprehensive expense for the period	<u>(2,413)</u>	<u>—</u>	<u>(2,413)</u>
At 31 December 2016	<u><u>(2,413)</u></u>	<u><u>48,429</u></u>	<u><u>46,016</u></u>

**31. INTERESTS IN SUBSIDIARIES****The Company**

	<b>As at 31 December 2016</b>
	<i>RMB'000</i>
Unlisted shares, at deemed cost	<u><u>48,429</u></u>

At the date of this report, the Company has direct and indirect equity interests in the following subsidiaries:

Name of subsidiaries	Date of incorporation/ establishment	Place of incorporation/ establishment	Issued and fully paid-up share capital/registered capital	Equity interests attributable to the Company as at			Principal activities	Notes
				At 31 December 2015	2016	At date of this report		
<i>Direct</i>								
New Forest	1 December 2015	British Virgin Islands ("BVI")	US\$1	N/A	100%	100%	Investment holding	(a)
<i>Indirect</i>								
Smart Trend	15 April 2016	Hong Kong	HK\$1	N/A	100%	100%	Investment holding	(b)
STL Apparel Accessories	29 April 2007	People's Republic of China ("PRC")	US\$1,000,000	100%	100%	100%	Manufacturing and sale of apparel accessories	(c)
STL Garment Accessories	31 December 2001	PRC	US\$1,050,000	100%	100%	100%	Manufacturing and sale of apparel accessories	(c)

*Notes:*

- (a) No audited financial statements of New Forest have been prepared since its respective dates of incorporation as it is incorporated in the jurisdiction where there is no statutory audit requirements.
- (b) No statutory audited financial statements of Smart Trend have been prepared since its date of incorporation as it is newly incorporated and the financial statements have not yet been due to issue.
- (c) The statutory financial statements of STL Apparel Accessories and STL Garment Accessories for the years ended 31 December 2015 and 31 December 2016 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by 惠州市安信會計師事務所有限公司, certified public accountants registered in the PRC.

**32. SUBSEQUENT EVENTS**

Save as disclosed elsewhere in the Historical Financial Information, the following transactions took place subsequent to 31 December 2016:

On 20 and 23 June 2017, a special dividend in respect of the year ended 31 December 2016 of RMB35,440 and RMB35,440 (equivalent to approximately HK\$40,000 and HK\$40,000) per ordinary share, in aggregate of RMB3,544,000 and RMB3,544,000 (equivalent to approximately HK\$4,000,000 and HK\$4,000,000) was declared and approved by the directors of the Company, respectively.

On 24 June 2017, a written resolution was passed for the 599,999,900 shares to be made upon capitalisation of the amount of HK\$5,999,999 standing to the credit of the share premium account of the Company as referred to in the paragraph headed "A. Further information about our Group — 6. Written resolutions of our Sole Shareholder passed on 24 June 2017" in Appendix IV to this prospectus.

**33. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Group, the Company or its subsidiaries in respect of any period subsequent to 31 December 2016.

The information set forth in this appendix does not form part of the accountants' report on the financial information of the Group for each of the two years ended 31 December 2016 (the "Accountants' Report") from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included in this prospectus for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

#### A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The statement of the unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with Rule 7.31 of the GEM Listing Rules is set out below to illustrate the effect of the public offer and placing (the "Share Offer") on the consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 as if the Share Offer had taken place on that date.

The statement of the unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company had the Share Offer been completed as at 31 December 2016 or at any future dates. It is prepared based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 <i>RMB'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Share Offer <i>RMB'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 <i>RMB'000</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 per Share <i>RMB</i> <i>(Note 3)</i>
Based on an Offer Price of HK\$0.26 per Share	<u>44,360</u>	<u>28,036</u>	<u>72,396</u>	<u>0.09</u>
Based on an Offer Price of HK\$0.30 per Share	<u>44,360</u>	<u>34,567</u>	<u>79,017</u>	<u>0.10</u>
Based on an Offer Price of HK\$0.34 per Share	<u>44,360</u>	<u>41,278</u>	<u>85,638</u>	<u>0.11</u>

*Notes:*

1. The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 is based on the consolidated net assets of the Group attributable to owners of the Company of approximately RMB44,478,000 with an adjustment for intangible asset of approximately RMB118,000 as at 31 December 2016 as extracted from the Accountants' Report set forth in Appendix I to this prospectus.
2. The adjustment to the unaudited pro forma statement of consolidated net tangible assets of the Group reflects the estimated net proceeds from the Share Offer to be received by the Company. The estimated net proceeds from the Share Offer is based on 200,000,000 Shares at the Share Offer of HK\$0.26, HK\$0.30 and HK\$0.34 per Share, being the low-end, mid-point and high-end of the stated Offer Price range, respectively, after deduction of the estimated underwriting fees and other related expenses expected to be incurred by the Group subsequent to 31 December 2016 and does not take into account of any Share which may be allotted and issued upon the exercise of any option that may be granted under the Share Option Scheme, or any Share which may be issued or repurchased pursuant to the Company's general mandate.

The estimated net proceeds from the Share Offer are converted from Hong Kong dollars into Renminbi at an exchange rate of RMB1.0 to HK\$1.12. No representation is made that Hong Kong dollars amounts have been, could have could be converted to Renminbi, or vice versa, at that rate or at all.
3. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is based on 800,000,000 Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue assumed to be completed on 31 December 2016. It does not take into account of any Share which may be allotted and issued upon the exercise of any option that may be granted under the Share Option Scheme, or any Share which may be issued or repurchased pursuant to the Company's general mandate.
4. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2016.
5. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2016 does not take into account the special dividend of RMB7,088,000 to be declared before the Share Offer. Had the special dividend of RMB7,088,000 to be declared before the Share Offer been taken into account of the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2016 and the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 31 December 2016 would have been further adjusted to RMB65,308,000 and RMB0.08, RMB71,929,000 and RMB0.09, RMB78,550,000 and RMB0.10, respectively, based on Share Offer Price of HK\$0.26, HK\$0.30 and HK\$0.34 per Share.

**(B) ASSURANCE REPORT FROM THE REPORTING ACCOUNTANTS' ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.*

**Deloitte.****德勤****INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of Reach New Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Reach New Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the statement of unaudited pro forma adjusted net tangible assets as at 31 December 2016 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 30 June 2017 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed placing and public offer on the Group's financial position as at 31 December 2016. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for each of the two years ended 31 December 2016, on which an accountants' report set out in Appendix I to the Prospectus has been published.

**Directors' Responsibilities for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the GEM Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants’ judgment, having regard to the reporting accountants’ understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong, 30 June 2017

**SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS  
COMPANY LAW**

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman Islands company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 January 2016 under the Companies Law. Our Company's constitutional documents consist of our Amended and Restated Memorandum of Association (Memorandum) and our Amended and Restated Articles of Association (Articles).

**MEMORANDUM OF ASSOCIATION**

The Memorandum provides, *inter alia*, that the liability of members of our Company is limited and that the objects for which our Company is established are unrestricted (and therefore include acting as an investment company), and that our Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since our Company is an exempted company, that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.

By special resolution our Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

**ARTICLES OF ASSOCIATION**

The Articles were adopted on 24 June 2017. A summary of certain provisions of the Articles is set out below.

**Shares***Classes of shares*

The share capital of our Company consists of ordinary shares.

*Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of our Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorised representative) or representing by



proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

#### *Alteration of capital*

Our Company may, by an ordinary resolution of our members: (a) increase our share capital by the creation of new shares of such amount as we think expedient; (b) consolidate or divide all or any of our share capital into shares of larger or smaller amount than our existing shares; (c) divide our unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide our shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of our share capital; and (h) reduce our share premium account in any manner authorised and subject to any conditions prescribed by law.

#### *Transfer of shares*

Subject to the Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of our Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which our Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to our Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the GEM Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

*Power of our Company to purchase our own shares*

Our Company may purchase our own shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where our Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

*Power of any subsidiary of our Company to own shares in our Company*

There are no provisions in the Articles relating to the ownership of shares in our Company by a subsidiary.

*Calls on shares and forfeiture of shares*

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced our Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

## **Directors**

### *Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of our Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of our Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of our Company.

The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in our Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of our Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and our Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the “retirement by rotation” provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (aa) resign;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) he is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

*Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of our Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of our Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and our Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

*Power to dispose of the assets of our Company or any of our subsidiaries*

While there are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of our subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting, but if such power or act is regulated by our Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

*Borrowing powers*

The Board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, debenture stock, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

*Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or our Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in our Company may be entitled by reason of such employment or office.

Any Director who, at the request of our Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of our Company or companies with which our Company is associated in business, or may make contributions out of our Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with our Company or any of our subsidiaries) and former employees of our Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*Compensation or payments for loss of office*

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by our Company in general meeting.

*Loans and provision of security for loans to Directors*

Our Company shall not directly or indirectly make a loan to a Director or a director of any holding company of our Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of our Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

*Disclosure of interest in contracts with our Company or any of our subsidiaries*

With the exception of the office of auditor of our Company, a Director may hold any other office or place of profit with our Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with our Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to our Company.



A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of our Company or any of our subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of our subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares, debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the benefit of employees of our Company or any of our subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of our Company or any of our subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of our Company by virtue only of his/their interest in those shares, debentures or other securities.

#### *Proceedings of the Board*

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

#### **Alterations to the constitutional documents and our Company's name**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of our Company may only be altered or amended, and the name of our Company may only be changed, with the sanction of a special resolution of our Company.



**Meetings of member***Special and ordinary resolutions*

A special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An “ordinary resolution”, by contrast, is a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of our Company duly convened and held, and where relevant as a special resolution so passed.

*Voting rights and right to demand a poll*

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of our Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the GEM Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

at least two members;

any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

a member or members holding shares in our Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of our Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where our Company has knowledge that any member is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

#### *Annual general meetings*

Our Company must hold an annual general meeting each year other than the year of our Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

#### *Notices of meetings and business to be conducted*

An annual general meeting of our Company shall be called by at least 21 days' notice in writing, and any other general meeting of our Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by our Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify our Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Companies Law and the GEM Listing Rules, a notice or document may also be served or delivered by our Company to any member by electronic means.

Although a meeting of our Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (a) in the case of an annual general meeting, by all members of our Company entitled to attend and vote thereat; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in our Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

*Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

*Proxies*

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

*Accounts and audit*

The Board shall cause proper books of account to be kept of the sums of money received and expended by our Company, and of the assets and liabilities of our Company and of all other matters required by the Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of our Company's affairs and to show and explain our transactions.

The books of accounts of our Company shall be kept at the head office of our Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of our Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or our Company in general meeting.

The Board shall from time to time cause to be prepared and laid before our Company at our annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), our Company may send summarised financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

Our Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by our Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of our Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

*Dividends and other methods of distribution*

Our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;

all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and

the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

Where the Board or our Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, our Company may by ordinary resolution in respect of any one particular dividend of our Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or our Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

Our Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

#### *Inspection of corporate records*

For so long as any part of the share capital of our Company is listed on the Stock Exchange, any member may inspect any register of members of our Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if our Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

#### *Rights of minorities in relation to fraud or oppression*

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of our Company under Cayman Islands law, as summarised in paragraph the headed "Protection of minorities and shareholders' suits" in the next section headed "CAYMAN ISLANDS COMPANY LAW" of this Appendix.

*Procedures on liquidation*

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

if our Company is wound up and the assets available for distribution among the members of our Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and

if our Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If our Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Companies Law, divide among the members in specie or kind the whole or any part of the assets of our Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

*Subscription rights reserve*

Provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

**CAYMAN ISLANDS COMPANY LAW**

Our Company was incorporated in the Cayman Islands as an exempted company on 22 January 2016 subject to the Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**Company operations**

An exempted company such as our Company must conduct our operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**Share capital**

Under Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- paying distributions or dividends to members;
- paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- any manner provided in section 37 of the Companies Law;
- writing-off the preliminary expenses of the company; and
- writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

**Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.



**Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**Dividends and distributions**

Subject to a solvency test, as prescribed in the Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

**Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

**Disposal of assets**

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

**Accounting and auditing requirements**

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

**Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

**Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet that:

no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to our Company or our operations; and

no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by our Company:

(aa) on or in respect of the shares, debentures or other obligations of our Company; or

(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for our Company is for a period of 20 years from 8 March 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

**Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

**Loans to directors**

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

**Inspection of corporate records**

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

**Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic

form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

#### **Register of Directors and officers**

Pursuant to the Companies Law, our Company is required to maintain at our registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

#### **Winding up**

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

### **Reconstructions**

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

### **Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

### **Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

### **GENERAL**

Appleby, our Company's legal adviser on Cayman Islands law, has sent to our Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR GROUP****1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 22 January 2016.

Our Company was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 23 February 2017 and our principal place of business in Hong Kong is Room 820, 8th Floor, Fortune Commercial Building, 362 Sha Tsui Road, Tsuen Wan, New Territories, Hong Kong. In connection with such registration, our Company has appointed Mr. Gabi Lam of Flat A, 8th Floor, Block 17, The Cairnhill, 108 Route Twisk, Tsuen Wan, New Territories, Hong Kong and Mr. Chan Fei Fei of Flat E, 9th Floor, Block 5, Grand Palisades, 8 Shan Yin Road, Tai Po, New Territories, Hong Kong as our authorised representatives for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, it is subject to the Companies Law and our constitution which comprises the Memorandum and the Articles. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles is set out in Appendix III to this prospectus.

**2. Changes in the share capital of our Company**

- (a) As at the date of incorporation, the authorised share capital of our Company was HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each. On the same date, one subscriber Share in our Company with a par value of HK\$0.01 was allotted and issued as fully paid to a nominee subscriber. On the same date, the said one Share was transferred to Neo Concept for a consideration of HK\$0.01 and our Company further allotted and issued 99 Shares with a par value of HK\$0.01 credited as fully paid to Neo Concept. Upon completion of the above transfer and share issue, Neo Concept became the sole Shareholder of our Company.
- (b) On 24 June 2017, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$20,000,000 divided into 2,000,000,000 Shares by the creation of an additional 1,962,000,000 Shares.

Immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme), the authorised share capital of our Company will be HK\$20,000,000 divided into 2,000,000,000 Shares, of which 800,000,000 Shares will be allotted and issued fully paid or credited as fully paid and 1,200,000,000 Shares will remain unissued.

Other than pursuant to the general mandate to allot and issue Shares as referred to in the paragraphs headed “6. Written resolutions of our sole Shareholder passed on 24 June 2017” and “7. Repurchase of the Shares” in this appendix and the exercise of the options which may be granted under the Share Option Scheme, our Directors do not have any present intention to allot

and issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in our Company's share capital since its incorporation.

### **3. Reorganisation**

Our Group underwent the Reorganisation in preparation for the Listing. Further details are set out in the section headed "History, development and Reorganisation — Reorganisation" in this prospectus.

### **4. Changes in share capital of the subsidiaries of our Company**

Our Company's subsidiaries are listed in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the section headed "History, development and Reorganisation — Reorganisation" in this prospectus, there has been no alteration in the share capital or registered capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

### **5. Further information about our Group's PRC establishment**

We have interest in the registered capital of two PRC subsidiaries. A summary of the corporate information of such PRC subsidiaries as at the Latest Practicable Date is set out as follows:

- (a). 新天倫服裝配料(惠州)有限公司 (Sun Tin Lun Garment Accessories (Huizhou) Company Limited\*)
- |       |                                     |                                      |
|-------|-------------------------------------|--------------------------------------|
| (i)   | Date of establishment:              | 31 December 2001                     |
| (ii)  | Nature:                             | Wholly foreign-owned enterprise      |
| (iii) | Registered owner:                   | Smart Trend                          |
| (iv)  | Total investment:                   | US\$1.05 million                     |
| (v)   | Registered capital:                 | US\$1.05 million                     |
| (vi)  | Attributable interest to our Group: | 100%                                 |
| (vii) | Term of operation:                  | 31 December 2001 to 30 December 2028 |

- (b) 新天倫服裝輔料(惠州)有限公司 (STL Apparel Accessories (HZ) Co., Ltd.)
- |  |                                 |
|--|---------------------------------|
| (i) Date of establishment:               | 29 April 2007                   |
| (ii) Nature:                             | Wholly foreign-owned enterprise |
| (iii) Registered owner:                  | Smart Trend                     |
| (iv) Total investment:                   | US\$1.35 million                |
| (v) Registered capital:                  | US\$1 million                   |
| (vi) Attributable interest to our Group: | 100%                            |
| (vii) Term of operation:                 | 29 April 2007 to 28 April 2022  |

#### 6. Written resolutions of our sole Shareholder passed on 24 June 2017

Written resolutions of our sole Shareholder were passed on 24 June 2017 approving, among other things, the following:

- (a) the Memorandum and the Articles were adopted as the memorandum of association and articles of association of our Company;
- (b) the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$20,000,000 divided into 2,000,000,000 Shares of HK\$0.01 each by the creation of additional 1,962,000,000 Shares of HK\$0.01 each, all of which shall rank equally in all respects with the existing Shares; and
- (c) conditional upon (i) the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be allotted and issued as mentioned in this prospectus including the Shares which may be allotted and issued pursuant to the exercise of the options that may be granted under the Share Option Scheme; (ii) the Offer Price having been duly determined and the execution and delivery of the Underwriting Agreements on the dates as specified in this prospectus; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including the waiver of any condition(s) by the Joint Bookrunners (for themselves and on behalf of the other Underwriters) and not being terminated in accordance with the terms of such agreements (or any conditions as specified in this prospectus), in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived before such dates and times) and in any event not later than the date falling 30 days after the date of this prospectus:
- (i) the Share Offer was approved and our Directors were authorised to (1) allot and issue the Offer Shares pursuant to the Share Offer subject to the terms and conditions as stated in this prospectus; (2) implement the Share Offer and the Listing; and (3) do all things and execute all documents in connection with or incidental to the Share Offer and the Listing with such amendments or modifications (if any) as our Directors may consider necessary or appropriate;



- (ii) conditional upon the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise the amount of HK\$5,999,999 from the amount standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par a total of 599,999,900 Shares for allotment and issue to our Shareholders whose names appear on the register of members of our Company at the close of business on 24 June 2017, or as each of them may direct in writing, in proportion (or as near as possible without involving the issue of fractions of Shares) to their then existing respective shareholdings in our Company and the Shares to be allotted and issued pursuant to this resolution shall rank equally in all respects with the then existing Shares;
- (iii) the rules of the Share Option Scheme were approved and our Board or any committee thereof established by our Board was authorised, at its sole discretion, to (1) administer the Share Option Scheme; (2) modify or amend the rules of the Share Option Scheme from time to time as may be acceptable or not objected to by the Stock Exchange; (3) grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of subscription rights attaching to any option(s) granted thereunder; and (4) take all such actions as it considers necessary or desirable to implement or give effect to the Share Option Scheme;
- (iv) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment and issue of Shares in lieu of the whole or in part of any cash dividend in accordance with the Articles, or upon the exercise of any option(s) that may be granted under the Share Option Scheme or under the Share Offer and the Capitalisation Issue, Shares in aggregate not exceeding the sum of (1) 20% of the total number of Share in issue immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme), (2) the total number of Shares in issue which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (v) below, until the conclusion of our Company's next annual general meeting, or the date by which our Company's next annual general meeting is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by our Shareholders in general meeting varying, revoking or renewing the mandate granted to our Directors, whichever occurs first;

- (v) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to repurchase, on the Stock Exchange and/or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose in accordance with all applicable laws and requirements of GEM (or of such other stock exchange), Shares in aggregate not exceeding 10% of the total number of Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme), until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by our Shareholders in general meeting varying, revoking or renewing the mandate granted to our Directors, whichever occurs first; and
- (vi) a general unconditional mandate mentioned in sub-paragraph (iv) above was extended by the addition to the total number of Shares in issue which may be allotted or agreed (conditionally or unconditionally) to be allotted or issued by our Directors pursuant to such general mandate of an amount representing the total number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares as referred to in sub-paragraph (v) above, provided that such extended amount shall not exceed 10% of the total number of Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme).

## 7. Repurchase of our Shares

This paragraph sets out information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

### *(a) Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

#### *(i) Shareholders' approval*

All proposed repurchases of securities (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to the written resolutions of our sole Shareholder passed on 24 June 2017, a general unconditional mandate (the “**Repurchase Mandate**”) was granted to our Directors to exercise all powers of our Company to repurchase, on the Stock Exchange and/or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose in accordance with all applicable laws and

requirements of GEM (or of such other stock exchange), Shares in aggregate not exceeding 10% of the total number of Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme), until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by our Shareholders in general meeting varying, revoking or renewing the mandate granted to our Directors, whichever occurs first.

*(ii) Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum, the Articles, the GEM Listing Rules and the Companies Law. A listed company must not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchase by our Company may be made out of profits of our Company, out of share premium, or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or, subject to the Companies Law, out of capital. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of profits of our Company, out of our Company's share premium account before or at the time the Shares are repurchased, or, subject to the Companies Law, out of capital.

*(iii) Trading restrictions*

A company is authorised to repurchase on the Stock Exchange or on any other stock exchange recognised by the SFC and the Stock Exchange the total number of shares which represent up to a maximum of 10% of the total number of shares of that company in issue at the date of the passing of the relevant resolution granting the repurchase mandate.

A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities whether on the Stock Exchange or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange.

In addition, a company is prohibited from making securities repurchase on the GEM if the result of the repurchases would be that the number of the listed securities in hands of the public would be below the relevant prescribed minimum percentage for that company as required and determined by the Stock Exchange.

A company shall not purchase its shares on the Stock Exchange if the purchase price is 5% or more higher than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

*(iv) Status of repurchased shares*

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

Under the Companies Law, a company's repurchased shares may be treated as cancelled and, if so cancelled, the amount of that company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

*(v) Suspension of repurchase*

A listed company may not make any repurchase of securities after inside information has come to its knowledge until the inside information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (A) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of a listed company's results for any year, half-year or quarter-year period or any other interim period (whether or not required under the GEM Listing Rules); and (B) the deadline for the listed company to announce its results for any year, half-year or quarter-year period under the GEM Listing Rules or any other interim period (whether or not required under the GEM Listing Rules) and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the GEM Listing Rules.

*(vi) Reporting requirements*

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 9:00 a.m. on the following business day. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on the Stock Exchange or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The directors' report is also required to contain reference to the purchases made during the year and the directors' reasons for making such purchases. The company shall make arrangements with its broker who effects the purchase to provide the company in a timely fashion the necessary information in relation to the purchase made on behalf of the company to enable the company to report to the Stock Exchange.

*(vii) Connected parties*

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person which includes a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell his securities to the company.

***(b) Reasons for repurchase***

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to be granted a general mandate from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

***(c) Funding of repurchase***

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum, the Articles, the GEM Listing Rules and the Companies Law.

On the basis of our Group's current financial position as disclosed in this prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our Group's working capital and/or its gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our Group's working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

***(d) General***

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company or our subsidiaries. Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the Articles and the applicable laws of Hong Kong and the Cayman Islands.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in voting rights increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), depending on the level of increase of our Shareholders' interest, could obtain or consolidate control of our Company and become

obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequence which would arise under the Takeovers Code as a result of any repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules).

Our Company has not made any repurchases of our own securities since its incorporation.

No core connected person has notified our Company that he has a present intention to sell the Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

## **B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP**

### **1. Summary of material contracts**


The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Company or any of the members of our Group within the two years immediately preceding the date of this prospectus and are or may be material:

- (a) an equity transfer agreement dated 20 September 2016 entered into between Reach New as transferor and Smart Trend as transferee in relation to the sale and purchase of the entire equity interest in STL Garment Accessories in consideration of Neo Concept allotting and issuing 95 ordinary shares, credited as fully paid, to Mr. Lam at the direction of Reach New;
- (b) an equity transfer agreement dated 20 September 2016 entered into between Reach New as transferor and Smart Trend as transferee in relation to the sale and purchase of the entire equity interest in STL Apparel Accessories in consideration of Neo Concept allotting and issuing four ordinary shares, credited as fully paid, to Mr. Lam at the direction of Reach New;
- (c) a deed of non-competition undertaking executed by Mr. Huang in favour of our Company (for ourselves and as trustee for each of our subsidiaries) dated 24 June 2017 regarding certain non-competition undertakings;
- (d) the Deed of Indemnity;
- (e) the Deed of Non-Competition; and
- (f) the Public Offer Underwriting Agreement.


## 2. Intellectual property rights

### (a) Trademarks

- (i) As at the Latest Practicable Date, we had registered the following trademarks in Hong Kong which are, in the opinion of our Directors, material to our business:

No.	Trademark	Owner	Class(es)	Trademark number	Expiry date
1.		Smart Trend	16, 23, 24 and 26	303864745	9 August 2026
2.	新天倫	Smart Trend	16, 23, 24 and 26	303864763	9 August 2026
3.	Sun Tin Lun/SUN TIN LUN/sun tin lun	Smart Trend	16, 23, 24 and 26	303864772	9 August 2026
4.	Reach New	Smart Trend	16, 23, 24 and 26	303864754	9 August 2026

- (ii) As at the Latest Practicable Date, our Group had applied for registration of the following trademark in the PRC which is in the opinion of our Directors, material to our Group's business:

Trademark	Applicant	Class(es)	Application number	Application date
	Smart Trend	35	20677109	18 July 2016

### (b) Domain names

As at the Latest Practicable Date, our Group had registered the following domain names which are, in the opinion of our Directors, material to our business:

Domain names	Registered owner	Expiry date
www.sthl.com.hk	Smart Trend	31 October 2017
www.stlhz.com	STL Garment Accessories	14 February 2018

## C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Disclosure of interests

- (a) *Interests and short positions of our Directors and chief executive of our Company in the Shares, underlying Shares and debentures of our Company and our Company's associated corporations*

Immediately after the completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme), the interests or short positions of each Director and chief executive of our Company in the Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or which will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by our Directors, to be notified to our Company and the Stock Exchange once the Shares are listed, will be as follows:

Name of Director/ chief executive	Capacity/ nature of interest	Relevant company	Number of Shares <i>(Note 1)</i>	Approximate percentage of shareholding
Mr. Lam <i>(Note 2)</i>	Interest in a controlled corporation	Neo Concept	600,000,000 (L)	75%

*Notes:*

- The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such Shares.
- Our Company will be directly owned as to 75% by Neo Concept immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account of any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme). Neo Concept is wholly and beneficially owned by Mr. Lam. Under the SFO, Mr. Lam is deemed to be interested in the same number of shares held by Neo Concept.

None of our Directors or chief executive of our Company will immediately after completion of Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme) have any notifiable interest (for the purposes of the SFO) other than those as disclosed above.



*(b) Interests and/or short positions of the Substantial Shareholders under the SFO*

Please refer to the section headed “Substantial and significant Shareholders” in this prospectus for details of the persons (other than a Director or a chief executive of our Company)/corporations who/which will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company pursuant to Divisions 2 and 3 of Part XV of the SFO, or who/which is, directly or indirectly, to be interested in 10% or more of the issued voting shares of any other member of our Group.

Our Directors are not aware of any persons who will immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Share that may be allotted and issued upon the exercise of the options that may be granted under the Share Option Scheme) have a notifiable interest (for the purposes of the SFO) in the Shares or, having such a notifiable interest, have any short position (within the meaning of the SFO) in the Shares, other than those disclosed above.

**2. Particulars of Directors’ service agreements and letters of appointment**

*(a) Executive Directors*

Each of our executive Directors has entered into a service agreement with our Company for an initial fixed term of three years commencing from the Listing Date. The term of service shall be renewed and extended automatically by three years on the expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party thereto giving at least three months’ written notice of non-renewal before the expiry of the then existing term.

*(b) Non-executive Director and Independent non-executive Directors*

Each of our non-executive Director and our independent non-executive Directors has entered into a letter of appointment with our Company for an initial fixed term of one year commencing from the Listing Date. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, subject to certain termination provisions including retirement by rotation as required by the Articles and the GEM Listing Rules, unless terminated by either party thereto giving at least one month’s written notice of non-renewal before the expiry of the then existing term.

Save as disclosed in this prospectus, none of our Directors has or is proposed to have entered into any service agreement or letter of appointment with any member of our Group (excluding agreements expiring or determinable by any member of our Group within one year without the payment of compensation other than statutory compensation).

### 3. Remuneration of our Directors

During each of FY2015 and FY2016, the aggregate emoluments paid and benefits in kind (excluding discretionary bonuses and contributions to pension schemes) granted to our Directors by any member of our Group were approximately RMB360,000 and RMB584,000, respectively.

During each of FY2015 and FY2016, the aggregate of contributions to pension schemes for our Directors were nil and approximately RMB20,000, respectively.

During each of FY2015 and FY2016, the aggregate discretionary bonuses paid to our Directors by any member of our Group were nil and nil, respectively.

Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus(es)) payable by any member of our Group to, and benefits in kind receivable by our Directors for the year ending 31 December 2017 are expected to be approximately HK\$2.3 million.

None of our Directors or any past director(s) of any member of our Group has been paid any sum of money for FY2015 and FY2016 (a) as an inducement to join or upon joining our Company or (b) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any emolument for FY2015 and FY2016.

Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefit or bonus or other fringe benefits) payable by any member of our Group to each of our Directors will be as follows:

	<i>HK\$</i>
<b>Non-executive Director</b>	
Mr. Lam	960,000
<b>Executive Directors</b>	
Mr. Gabi Lam	960,000
Mr. Jeffrey Lam	960,000
<b>Independent non-executive Directors</b>	
Mr. Moy Yee Wo, Matthew	180,000
Mrs. So Chan Wai Hang, <i>BBS</i>	180,000
Mr. Ho Yuk Hay	180,000

Each of our executive Directors, non-executive Director and independent non-executive Directors is entitled to reimbursement of all necessary and reasonable out-of-pocket expenses properly incurred in relation to all business and affairs carried out by us from time to time or for providing services to us or executing their functions in relation to our business and operations.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable in respect of FY2015 and FY2016 by any member of our Group to our Directors.

#### **4. Related Party Transactions**

Details of the related party transactions are set out under note 29 to the Accountants' Report in Appendix I to this prospectus.

#### **5. Disclaimers**

Save as disclosed in this prospectus:

- (a) none of our Directors or the experts named in the paragraph headed "E. Other information — 7. Qualifications of experts" in this appendix has been directly or indirectly interested in the promotion of, or in any asset which has been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (b) none of our Directors nor the experts named in the paragraph headed "E. Other information — 7. Qualifications of experts" in this appendix below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group; and
- (c) none of the experts named in the paragraph headed "E. Other information — 7. Qualifications of experts" in this appendix below has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

### **D. SHARE OPTION SCHEME**

#### **1. Summary of terms of the Share Option Scheme**

##### *(a) Purpose of the Share Option Scheme*

The purpose of the Share Option Scheme is to enable our Group to grant options to the eligible participants as incentives or rewards for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group or any entity in which any member of our Group holds any equity interest (the "**Invested Entity**"). As at the Latest Practicable Date, there was no Invested Entity other than members of our Group, and our Group has not identified any potential Invested Entity for investment.

(b) *Who may join*

Our Directors shall, in accordance with the provisions of the Share Option Scheme and the GEM Listing Rules, be entitled but shall not be bound at any time within a period of 10 years commencing from the date of the adoption of the Share Option Scheme to make an offer to any of the following classes:

- (i) any employee (whether full time or part time, including the directors (including any non-executive Director and independent non-executive Director)) of our Company, any of our subsidiaries (within the meaning of the Companies Ordinance) or any Invested Entity (an “**eligible employee**”);
- (ii) any supplier of goods or services to any member of our Group or any Invested Entity;
- (iii) any customer of any member of our Group or any Invested Entity;
- (iv) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (v) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (vi) any adviser (professional or otherwise), consultant, individual or entity who in the opinion of our Directors has contributed or will contribute to the growth and development of our Group; and
- (vii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group,

and, for the purpose of the Share Option Scheme, the offer for the grant of an option may be made to any company wholly owned by one or more eligible participants.

For the avoidance of doubt, the grant of any option by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of eligible participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the eligible participants to an offer under the Share Option Scheme shall be determined by our Directors from time to time on the basis of our Directors’ opinion as to his contribution to the development and growth of our Group.

(c) *Maximum number of Shares*

- (i) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by our Group shall not exceed 30% of the share capital of our Company in issue from time to time.
- (ii) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the total number of Shares in issue at the time dealings in the Shares first commence on the Stock Exchange, being 80,000,000 Shares (the “**General Scheme Limit**”).
- (iii) Subject to (i) above and without prejudice to (iv) below, our Company may seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group shall not exceed 10% of the Shares in issue as at the date of the approval of the limit and for the purpose of calculating the limit, options (including options outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option schemes of our Group will not be counted.
- (iv) Subject to (i) above and without prejudice to (iii) above, our Company may seek separate shareholders’ approval in general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit, or if applicable, the extended limit referred to in (iii) above to eligible participants specifically identified by our Company before such approval is sought.

(d) *Maximum entitlement of each eligible participant*

Subject to (e) below, the total number of Shares issued and which may fall to be issued upon exercise of the options under the Share Option Scheme and the options granted under any other share option scheme of our Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being. Where any further grant of options under the Share Option Scheme to a grantee would result in the Shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option scheme of our Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by our Shareholders in general meeting with such grantees and his close associates (or his associates if the participant is a connected person) abstaining from voting.

(e) *Grant of options to cover connected persons*

- (i) Without prejudice to (ii) below, the making of an offer under the Share Option Scheme to any Director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of an option under the Share Option Scheme).
- (ii) Without prejudice to (i) above, where any grant of options under the Share Option Scheme to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options under the Share Option Scheme already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
  - (1) representing in aggregate over 0.1% of the Shares in issue; and
  - (2) having an aggregate value, based on the closing price of the Shares on the offer date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by our Shareholders in general meeting. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting.

For the purpose of seeking the approval of our Shareholders under paragraphs (c), (d) and (e) above, our Company must send a circular to our Shareholders containing the information required under the GEM Listing Rules and where the GEM Listing Rules shall so require, the vote at our Shareholders' meeting convened to obtain the requisite approval shall be taken on a poll with those persons required under the GEM Listing Rules abstaining from voting.

(f) *Time of acceptance and exercise of an option*

An offer under the Share Option Scheme may remain open for acceptance by the eligible participants concerned (and by no other person) for a period of up to 21 days from the date, which must be a business day, on which the offer is made.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to the grantee thereof, and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of (i) the date on which such option lapses under the relevant provisions of the Share Option Scheme; and (ii) the date falling 10 years from the offer date of that option.

An offer shall have been accepted by an eligible participant in respect of all Shares which are offered to such eligible participant when the duplicate letter comprising acceptance of the offer duly signed by the eligible participant together with a remittance in favour of our

Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

Any offer may be accepted by an eligible participant in respect of less than the number of Shares which are offered provided that it is accepted in respect of a board lot for dealings in the Shares on GEM or an integral multiple thereof and such number is clearly stated in the duplicate letter comprising acceptance of the offer duly signed by such eligible participant and received by our Company together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

*(g) Performance targets*

Unless otherwise determined by our Directors and stated in the offer to a grantee, a grantee is not required to hold an option for any minimum period nor achieve any performance targets before the exercise of an option granted to him.

*(h) Subscription price for Shares*

The subscription price in respect of any option shall, subject to any adjustments made pursuant to paragraph(s) below, be at the discretion of our Directors, provided that it shall not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the offer date;
- (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and
- (iii) the nominal value of a Share.

*(i) Ranking of Shares*

Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank equally in all respects with the then existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered in the register of members of our Company as the holder thereof.

*(j) Restrictions on the time of grant of options*

For so long as the Shares are listed on the Stock Exchange, an offer may not be made after inside information has come to our Company's knowledge until we have announced the information. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's result for any year, half-year or quarter-year period or any other interim period (whether or not required under the GEM Listing Rules); and (ii) the deadline for our Company to publish announcements of our results for any year, half-year, quarter-year period or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement, no offer for the grant of an option may be made.

Our Directors may not make any offer to an eligible participant who is a Director during the periods or times in which our Directors are prohibited from dealing in Shares under such circumstances as prescribed by the GEM Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

*(k) Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

*(l) Rights of ceasing employment*

If the grantee is an eligible employee and in the event of his ceasing to be an eligible employee for any reason other than his death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds specified in (n) below before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation or termination. The date of cessation or termination as aforesaid shall be the last day on which the grantee was actually at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not.

*(m) Rights on death, ill-health or retirement*

If the grantee is an eligible employee and in the event of his ceasing to be an eligible employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s) or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not.



*(n) Rights on dismissal*

In respect of a grantee who is an eligible employee, the date on which the grantee ceases to be an eligible employee by reason of termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group into disrepute), such option (to the extent not already exercised) shall lapse automatically and shall not in any event be exercisable on or after the date of cessation to be an eligible employee.

*(o) Rights on breach of contracts*

In respect of a grantee other than an eligible employee, the date on which our Directors shall at their absolute discretion determine that (i)(1) such grantee has committed any breach of any contract entered into between such grantee on the one part and our Group or any Invested Entity on the other part; or (2) such grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) such grantee could no longer make any contribution to the growth and development of our Group by reason of the cession of its relations with our Group or by any other reason whatsoever; and (ii) the option shall lapse as a result of any event specified in sub-paragraph (i)(1) to (3).

*(p) Rights on a general offer, a compromise or arrangement*

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of the Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to our Shareholders, the grantee shall, notwithstanding any other terms on which his option was granted, be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

*(q) Rights on winding-up*

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified

in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolution is to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation equally with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

*(r) Grantee being a company wholly owned by eligible participants*

If the grantee is a company wholly owned by one or more eligible participants:

- (i) the provisions of paragraphs (l), (m), (n) and (o) above shall apply to the grantee and to the option granted to such grantee, mutatis mutandis, as if such option had been granted to the relevant eligible participant, and such option shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs (l), (m), (n) and (o) above shall occur with respect to the relevant eligible participant; and
- (ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

*(s) Adjustment of the subscription price*

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation issue, rights issue, consolidation or sub-division of the Shares, or reduction of the share capital of our Company, then, in any such case our Company shall instruct the auditors or an independent financial adviser to certify in writing the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular grantee, to:

- (i) the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relate(s) (insofar as it is/they are unexercised); and/or
- (ii) the subscription price of any option; and/or
- (iii) (unless the relevant grantee elects to waive such adjustment) the number of Shares comprised in an option or which remain comprised in an option,

and an adjustment as so certified by the auditors or such independent financial adviser shall be made, provided that:

- (i) any such adjustment shall give the grantee the same proportion of the issued share capital of our Company (as interpreted in accordance with the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes) for which such grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment;
- (ii) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
- (iii) the issue of Shares or other securities of our Group as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and
- (iv) any such adjustment shall be made in compliance with the GEM Listing Rules and such rules, codes and guidance notes of the Stock Exchange from time to time.

In respect of any adjustment referred to above, other than any adjustment made on a capitalisation issue, the auditors or such independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the GEM Listing Rules and the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes.

*(t) Cancellation of options*

Subject to the provisions in the Share Option Scheme and the GEM Listing Rules, any option granted but not exercised may not be cancelled except with the prior written consent of the relevant grantee and the approval of our Directors.

Where our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding, for this purpose, the options so cancelled) within the General Scheme Limit or the limits approved by our Shareholders pursuant to paragraph (c)(ii) or (c)(iv) above.

*(u) Termination of the Share Option Scheme*

Our Company by an ordinary resolution in general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) *Rights are personal to grantee*

An option shall be personal to the grantee and shall not be transferable or assignable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement so to do. Any breach of the foregoing by a grantee shall entitle our Company to cancel any option granted to such grantee to the extent not already exercised.

(w) *Lapse of option*

An option shall lapse automatically (to the extent not already exercised) on the earliest of (i) the expiry of the option period in respect of such option; (ii) the expiry of the periods or dates referred to in paragraphs (l), (m), (n), (o), (p), (q) and (r) above; or (iii) the date on which our Directors exercise our Company's right to cancel the option by reason of paragraph (v) above.

(x) *Others*

- (i) The Share Option Scheme is conditional upon:
  - (1) the Stock Exchange granting the listing of and permission to deal in such number of Shares representing the General Scheme Limit to be allotted and issued by our Company pursuant to the exercise of options in accordance with the terms and conditions of the Share Option Scheme; and
  - (2) the passing of the necessary resolution to approve and adopt the Share Option Scheme in general meeting or by way of written resolution of our Shareholders.
- (ii) The provisions of the Share Option Scheme relating to the matters governed by Rule 23.03 of the GEM Listing Rules shall not be altered to the advantage of grantees or prospective grantees except with the prior sanction of a resolution of our Company in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the holders of the Shares under the Articles for the time being for a variation of the rights attached to the Shares.
- (iii) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted shall be approved by our Shareholders except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (iv) The terms of the Share Option Scheme and/or any options amended must comply with the applicable requirements of the GEM Listing Rules.

- (v) Any change to the authority of our Directors or the administrators of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

## 2. Present status of the Share Option Scheme

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares to be allotted and issued within the General Scheme Limit pursuant to the exercise of options that may be granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

## E. OTHER INFORMATION

### 1. Tax and other indemnities

The Controlling Shareholders (collectively, the “**Indemnifiers**”) have, under the Deed of Indemnity, given joint and several indemnities to our Company (for ourselves and as trustee for and on behalf of our subsidiaries) in connection with, among other things:

- (a) any taxation (including estate duty) falling on any member of our Group resulting from or by reference to any income, profits, gains, transactions (including transactions involved in the Reorganisation), events, matters or things earned, accrued, received, entered into (or deemed to be so earned, accrued, received or entered into) or occurring on or before the date on which the Share Offer becomes unconditional, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company, including any and all taxation resulting from the receipt by any member of our Group of any amount paid by the Indemnifiers under the Deed of Indemnity; and/or:
- (b) all reasonable costs (including all legal costs), expenses or other liabilities which any member of our Group may incur in connection with:
  - (i) the investigation, assessment, settlement or contesting of any taxation claim;
  - (ii) the settlement of any claim under the Deed of Indemnity;
  - (iii) any legal proceedings in which any member of our Group claims under or in respect of the Deed of Indemnity and in which judgment is given for any member of our Group; or
  - (iv) the enforcement of any such settlement or judgment.

The Indemnifiers shall be under no liability under the Deed of Indemnity, among other things:

- (a) to the extent that provision has been made for such taxation in the audited combined accounts of the members of our Group for FY2015 and FY2016;
- (b) to the extent that such taxation claim arises or is incurred as a consequence of any retrospective change in the law or regulations or practice by the Inland Revenue Department of Hong Kong or any other tax or government authorities in any part of the world coming into force after the date on which the Share Offer becomes unconditional or to the extent such taxation claim arises or is increased by an increase in rates of taxation after the date on which the Share Offer becomes unconditional with retrospective effect; and
- (c) to the extent that the liability for such taxation is caused by the act or omission of, or transaction voluntarily effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) which is carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the date on which the Share Offer becomes unconditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands and the BVI is likely to fall on our Group, and the estate duty under the laws of Hong Kong has been abolished.

## **2. Litigation**

To the best knowledge of our Directors, as at the Latest Practicable Date, neither our Company nor any of our subsidiaries was engaged in any litigation, arbitration or claims of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company or any member of our Group, that would have a material adverse effect on our financial condition and results of operations.

## **3. Application for listing of Shares**

We have applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be allotted and issued as mentioned in this prospectus. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

## **4. Compliance Adviser**

In accordance with the requirements of the GEM Listing Rules, our Company has appointed Alliance Capital Partners Limited as our compliance adviser to provide advisory services to our Company to ensure compliance with the GEM Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date.

**5. Preliminary expenses**

The estimated preliminary expenses to the incorporation of our Company are approximately HK\$33,540 and have been payable by our Company.

**6. Promoter**

We do not have any promoter.

**7. Qualifications of experts**

The following are the qualifications of the experts who have given opinion or advice in this prospectus:

Name	Qualifications
Alliance Capital Partners Limited	A licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Appleby	Cayman Islands legal advisers
Beijing Dentons Law Offices, LLP (Shenzhen)	PRC legal advisers
Deloitte Touche Tohmatsu	Certified public accountants
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

**8. Consents of experts**

Each of the experts referred to above has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be), and reference to its name included in the form and context in which it respectively appears in this prospectus.

**9. Fees of the Sole Sponsor**

The Sole Sponsor will receive a sponsorship, financial advisory and documentation fee of a total amount of HK\$4.5 million in relation to the Listing and will be reimbursed for their expenses.

**10. Independence of the Sole Sponsor**

Neither the Sole Sponsor nor any of its close associates has accrued any material benefit as a result of the successful outcome of the Share Offer, other than the following:

- (a) by way of sponsorship, financial advisory and documentation fee to be paid to the Sole Sponsor for acting as the sponsor of the Listing; and
- (b) by way of the compliance advisory fee to be paid to Alliance Capital Partners Limited HK\$120,000 per quarter as our Company's compliance adviser pursuant to the requirements under Rule 6A.19 of the GEM Listing Rules.

No director or employee of the Sole Sponsor who is involved in providing advice to our Company has or may have, as a result of the Listing, any interest in any class of securities of our Company or any of our subsidiaries. None of the directors and employees of the Sole Sponsor has any directorship in our Company or any member of our Group. The Sole Sponsor is independent from our Group under Rule 6A.07 of the GEM Listing Rules.

**11. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**12. Miscellaneous**

Save as disclosed herein:

- (a) within the two years immediately preceding the date of this prospectus:
  - (i) no share or loan capital of our Company or any of our subsidiaries has been allotted and issued, agree to be allotted and issued or is proposed to be allotted and issued as fully or partly paid either for cash or for a consideration other than cash;
  - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
- (b) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares;
- (c) no founder, management or deferred shares of our Company have been allotted and issued or agreed to be allotted and issued;



- (d) no share, warrant or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
- (e) our Company has no outstanding convertible debt securities.

**13. Bilingual prospectus**

The English language and Chinese language versions of this prospectus are being published separately in reliance on the exemption under section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

1. copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
2. the written consents as referred to in the paragraph headed “E. Other information — 7. Qualifications of experts” in Appendix IV to this prospectus; and
3. copies of the material contracts as referred to in the paragraph headed “B. Further information about the business of our Group — 1. Summary of material contracts” in Appendix IV to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of ONC Lawyers at 19th Floor, Three Exchange Square, 8 Connaught Place, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

1. the Memorandum and Articles of Association;
2. the Accountants’ Report from Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
3. the audited consolidated financial statements of our Group for FY2015 and FY2016;
4. the report from Deloitte Touche Tohmatsu on the unaudited pro forma financial information of our Group, the text of which are set out in Appendix II to this prospectus;
5. the letter of advice prepared by Appleby summarising certain aspects of Cayman Islands company law as referred to in Appendix III to this prospectus;
6. the Companies Law;
7. the rules of the Share Option Scheme;
8. the material contracts as referred to in the paragraph headed “B. Further information about the business of our Group — 1. Summary of material contracts” in Appendix IV to this prospectus;
9. the service agreements and letters of appointment as referred to in the paragraph headed “C. Further information about our Directors and substantial Shareholders — 2. Particulars of Directors’ service agreements and letters of appointment” in Appendix IV to this prospectus;
10. the written consents as referred to in the paragraph headed “E. Other information — 7. Qualifications of experts” in Appendix IV to this prospectus;

11. the PRC Legal Opinions issued by our PRC Legal Advisers; and
12. the industry report prepared by F&S.

**Reach New Holdings Limited**  
新達控股有限公司