



MANSION INTERNATIONAL HOLDINGS LIMITED
民 信 國 際 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 8456

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



浦銀國際
SPDB INTERNATIONAL



海通國際
HAITONG

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IMPORTANT

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



Mansion International Holdings Limited

民信國際控股有限公司

(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** : 100,000,000 Offer Shares (subject to Offer Size Adjustment Option)
- Number of Placing Shares** : 90,000,000 Offer Shares (including 5,000,000 Employee Reserved Shares) (subject to reallocation and Offer Size Adjustment Option)
- Number of Public Offer Shares** : 10,000,000 Offer Shares (subject to reallocation)
- Offer Price** : Not more than HK\$0.78 per Offer Share and expected to be not less than HK\$0.62 per Offer Share (payable in full on application plus brokerage of 1.0%, 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** : 8456

Sole Sponsor



Alliance Capital Partners Limited
同人融資有限公司

Joint Bookrunners and Joint Lead Managers



Alliance Capital Partners Limited
同人融資有限公司



浦銀國際
SPDB INTERNATIONAL



海通國際
HAITONG

Joint Lead Managers



中國金洋證券
CHINA GOLDJOY SECURITIES



興證國際
INDUSTRIAL SECURITIES INTERNATIONAL



Shenwan Hongyuan Capital (H.K.) Limited
申萬宏源融資(香港)有限公司



益高證券有限公司
YICKO SECURITIES LIMITED

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\$0.78 per Offer Share and is expected to be not less than HK\$0.62 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 Thursday, 18 January 2018, or such other date as may be agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the other Underwriters). The Joint Bookrunners may, with our consent, reduce the indicative Offer Price range and/or the number of Offer Shares stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. 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 and the website of our Company at www.mansionintl.com.

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" in this prospectus, at any time at or before 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.

12 January 2018

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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

EXPECTED TIMETABLE

2018 ⁽¹⁾

Latest time for lodging **PINK** Application Forms at 7/F, 822 Lai
Chi Kok Road, Kowloon, Hong Kong 12:00 noon on Tuesday,
16 January

Latest time to complete electronic applications under the **HK
eIPO White Form** service through the designated website at
www.hkeipo.hk ⁽²⁾ 11:30 a.m. on Wednesday,
17 January

Application lists open ⁽³⁾ 11:45 a.m. on Wednesday,
17 January

Latest time to lodge **WHITE** and **YELLOW** Application Forms
and to give **electronic application instruction** to HKSCC ⁽⁴⁾ 12:00 noon on Wednesday,
17 January

Latest time to complete payment of **HK eIPO White Form**
applications by effecting internet banking transfer(s) or PPS
payment transfer(s) 12:00 noon on Wednesday,
17 January

Application lists close ⁽³⁾ 12:00 noon on Wednesday,
17 January

Expected Price Determination Date ⁽⁵⁾ Thursday, 18 January

Announcement of the final Offer Price, the level of indication of
interest in the Placing, the level of applications in the Public
Offer and the Employee Preferential Offer, the basis of
allocation of the Public Offer Shares and Employee Reserved
Shares to be published (a) on the website of our Company at
www.mansionintl.com and (b) the website of the Stock
Exchange at www.hkexnews.hk on or before Thursday, 25 January

Results of allocations in the Public Offer (with successful
applicants' identification document numbers, where
applicable) to be available through a variety of channels Thursday, 25 January

Results of allocations in the Public Offer will be available at
www.tricor.com.hk/ipo/result with a "search by ID
number/Business Registration Number" function from Thursday, 25 January

Despatch/Collection of share certificates in respect of wholly or
partially successful applications pursuant to the Public Offer
on or about ⁽⁶⁾⁽⁷⁾ Thursday, 25 January

EXPECTED TIMETABLE

2018 ⁽¹⁾

Despatch/Collection of **HK eIPO White Form** 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 and the Employee Preferential Offer on or about ⁽⁷⁾⁽⁸⁾ Thursday, 25 January

Dealings in the Shares on GEM to commence at 9:00 a.m. on Friday, 26 January

Notes:

1. All times and dates refer to Hong Kong times and dates.
2. You will not be permitted to submit your application through the designated website at 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 Wednesday, 17 January 2018, the application lists will not open on that day. For further information please refer to the section headed “How to apply for the Public Offer Shares and Employee Reserved 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 the Public Offer Shares and Employee Reserved Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
5. The Price Determination Date is scheduled on Thursday, 18 January 2018 (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, 25 January 2018 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 or on **PINK** Application Forms for 1,000,000 or more Employee Reserved Shares and have provided all information required by their Application Forms 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, 25 January 2018. Applicants being individuals who are eligible for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations

EXPECTED TIMETABLE

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.

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 the Public Offer Shares and Employee Reserved 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 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 the Public Offer Shares and Employee Reserved 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.mansionintl.com and the Stock Exchange at 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 Offer Shares, please refer to the sections headed "Structure and conditions of the Share Offer" and "How to apply for the Public Offer Shares and Employee Reserved 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 sections headed “Definitions” and “Glossary” in this prospectus.

OVERVIEW

We specialise in the manufacture and sale of baby clothing and clothing accessories for infants and toddlers. We sell these baby fabric products through (i) our OEM business directly to the overseas brand companies or designated sourcing companies mainly located in Hong Kong, UK and US; and (ii) our OBM business under our own brand “mides” and complementary third party brand products through our self-operated retail stores and department store counters in Hong Kong, and wholesale in Hong Kong, the PRC and Macao.

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

	FY2016		FY2017		For the five months ended			
	HK\$'000	%	HK\$'000	%	31 August 2016 HK\$'000	%	31 August 2017 HK\$'000	%
OEM business	329,428	80.4	256,091	76.3	129,969	82.2	92,269	77.1
OBM business								
- Self-operated retail stores	36,852	9.0	36,194	10.8	12,769	8.1	13,500	11.3
- Department store counters	40,370	9.8	38,758	11.5	13,659	8.7	12,566	10.5
- Wholesale	3,115	0.8	4,767	1.4	1,630	1.0	1,328	1.1
OBM sub-total	80,337	19.6	79,719	23.7	28,058	17.8	27,394	22.9
Total	409,765	100	335,810	100	158,027	100	119,663	100

Our headquarters is located in Hong Kong which carries out our business functions of design and development, sales and marketing and daily management. Our production facilities are located at Huangpu County, Zhongshan City, Guangdong Province in the PRC which carry out the entire production process including pre-production sampling, cutting, printing, embroidering, sewing, button attaching, ironing and packing.

SUMMARY

Since we started our operations in 1993, our Group manufactures and sells a wide range of baby fabric products to overseas third party brand companies and designated sourcing companies, mainly located in Hong Kong, UK and US, that are marketed towards infants and toddlers. Most of the overseas third party brand companies refer to internationally-recognised baby clothing brands, such as Gerber, Mamas & Papas and Next. For FY2016, FY2017 and the five months ended 31 August 2017, our OEM business has generated approximately 80.4%, 76.3% and 77.1% of our total revenue, respectively.

In 2004, our Group commenced our OBM business by setting up department store counters located in Quarry Bay, Sheung Wan and Nathan Road, Hong Kong, selling our baby fabric products. In 2009, we launched our first “mídes” self-operated retail store in Whampoa, Hong Kong. Over the past 13 years, we have expanded our retail chain by opening more retail stores in Hong Kong and have penetrated the market gradually. As at the Latest Practicable Date, our Group had 10 self-operated retail stores and 12 department store counters, located throughout Hong Kong, Kowloon and the New Territories. Since 2010, we have entered into wholesale agreements with business partners in Macao, Taiwan and the PRC and sold our own brand products to them. Our Directors consider that the sales through the wholesaler in Taiwan was not satisfactory and profitable. Currently, we have no plan to actively explore the market in Taiwan. Throughout the Track Record Period, some Hong Kong companies purchased our products on wholesale basis from time to time. For FY2016, FY2017 and the five months ended 31 August 2017, our OBM business had generated approximately 19.6%, 23.7% and 22.9% of our total revenue, respectively.

We were regarded as one of the major suppliers in the PRC by our major customers in UK and US in 2016. We contributed approximately 7.0% of the market share in terms of retail sales revenue of baby clothing in Hong Kong in 2016. For further details of our business model, please refer to the section headed “Business — Our business model” of this prospectus.

Our customers and suppliers

For our OEM business, our customers are overseas third party brand companies and designated sourcing companies mainly located in Hong Kong, UK and US, while our target customers of our OBM business are parents and prospective parents. We also sold our own brand products to wholesale customers in Hong Kong, the PRC, Macao and Taiwan during the Track Record Period. We have maintained business relationships with our five largest customers for the Track Record Period ranging from one to 23 years. We source raw materials, especially cotton fabric, from our approved suppliers or the suppliers designated by our OEM customers. We have developed long term business relationships with our five largest suppliers for the Track Record Period ranging from five to 19 years. For further details of our customers and suppliers, please refer to the sections headed “Business — Our customers” and “Business — Our suppliers and subcontractors” of this prospectus.

Intellectual property

As at the Latest Practicable Date, we owned 10 registered trademarks in Hong Kong, 13 trademarks in the PRC and six trademarks in Taiwan. We have also applied for registration of two trademarks in Macao. We are also the registered owner of 10 domain names. For further details of our intellectual property, please refer to the section headed “B. Further information about the business of our Group — 2. Intellectual property rights of our Group” in Appendix IV to this prospectus.

SUMMARY

COMPETITIVE STRENGTHS

We believe our success and potential for further growth are attributable to our following competitive strengths: (i) we have established strong presence in the baby clothing industry in the PRC and Hong Kong; (ii) we have long-term business relationships with a number of our major customers and suppliers; (iii) we have an experienced and competent management team; (iv) we target to provide quality baby fabric products with high standards; (v) we have value-added product design and research and development capabilities; and (vi) we are well-positioned to expand our OBM business in Hong Kong. For further details of our competitive strengths, please refer to the section headed “Business — Competitive strengths” of this prospectus.

BUSINESS STRATEGIES

Our principal business objective is to strengthen our position in the baby clothing market. We intend to achieve these objectives by implementing the following strategies: (i) upgrading our production facilities and enhancing the production capability through extensive application of RFID technology; (ii) enhancing our sales and marketing effort; and (iii) strengthening our research and development capabilities for the PRC market. For further details of our business strategies, please refer to the section headed “Business — Business strategies and future plans” of this prospectus.

OUR SHAREHOLDERS

Our Controlling Shareholders are Joyful Cat and Ms. Fung, who is our chairlady, chief executive officer and executive Director. Immediately following the completion of the Share Offer and the Capitalisation Issue (but without taking into account any Shares which may be allotted and issued upon exercise of any options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option), Joyful Cat and Ms. Fung 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 competes or may compete with the business of our Group and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules. For further details of our Controlling Shareholders, please refer to the section headed “Relationship with Controlling Shareholders” of this prospectus.

SUMMARY OF HISTORICAL FINANCIAL PERFORMANCE

The table below sets out a summary of the audited financial information of our Group for FY2016, FY2017 and the five months ended 31 August 2017. For further details of our financial information, please refer to the Accountants’ Report in Appendix I to this prospectus.

SUMMARY

Highlights of consolidated statements of profit or loss and other comprehensive income

	FY2016	FY2017	For the five months ended	
			31 August 2016	31 August 2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	409,765	335,810	158,027	119,663
Gross profit	131,020	126,099	54,267	50,593
Profit/(loss) before tax	15,907	12,244	5,612	(3,600)
Total comprehensive income/(loss) for the year/period	11,171	10,269	4,754	(4,834)
Adjusted net profit excluding the listing expenses for the year/period	11,171	12,398	4,754	3,090

A breakdown of our Group's revenue and units sold of our products in OEM and OBM businesses as well as the revenue per unit of each category are set out below:

	For the five months ended											
	FY2016			FY2017			31 August 2016			31 August 2017		
	Revenue	Unit(s) sold	Revenue per unit	Revenue	Unit(s) sold	Revenue per unit	Revenue	Unit(s) sold	Revenue per unit	Revenue	Unit(s) sold	Revenue per unit
	<i>HK\$'000</i>	<i>'000</i>	<i>HK\$</i>	<i>HK\$'000</i>	<i>'000</i>	<i>HK\$</i>	<i>HK\$'000</i>	<i>'000</i>	<i>HK\$</i>	<i>HK\$'000</i>	<i>'000</i>	<i>HK\$</i>
	<i>(unaudited)</i>											
OEM business												
- Baby clothing	193,348	7,716	25.1	180,408	6,824	26.4	86,115	3,311	26.0	60,164	2,228	27.0
- Clothing accessories	136,080	21,890	6.2	75,683	11,168	6.8	43,854	6,560	6.7	32,105	3,820	8.4
Sub-total	<u>329,428</u>	<u>29,606</u>	11.1	<u>256,091</u>	<u>17,992</u>	14.2	<u>129,969</u>	<u>9,871</u>	13.2	<u>92,269</u>	<u>6,048</u>	15.3
OBM business												
- Baby clothing	50,880	361	140.9	48,982	414	118.3	15,811	137	115.4	16,902	138	122.5
- Clothing accessories	18,162	170	106.8	18,865	197	95.8	6,623	62	106.8	6,298	58	108.6
Sub-total	<u>69,042</u>	<u>531</u>	130.0	<u>67,847</u>	<u>611</u>	111.0	<u>22,434</u>	<u>199</u>	112.7	<u>23,200</u>	<u>196</u>	118.4
Complementary third party brand products	11,295	134	84.3	11,872	174	68.2	5,624	61	92.2	4,194	59	71.1
Total	<u><u>409,765</u></u>	<u><u>30,271</u></u>	13.5	<u><u>335,810</u></u>	<u><u>18,777</u></u>	17.9	<u><u>158,027</u></u>	<u><u>10,131</u></u>	15.6	<u><u>119,663</u></u>	<u><u>6,303</u></u>	19.0

During the Track Record Period, we experienced a decrease in our revenue by approximately HK\$74.0 million or 18.0% from approximately HK\$409.8 million for FY2016 to HK\$335.8 million for FY2017; while the revenue decreased by approximately 24.3% from approximately HK\$158.0 million for the five months ended 31 August 2016 to approximately HK\$119.7 million for the five months ended 31 August 2017. Such decreases were mainly due to reduced sales orders placed by our two largest customers for FY2016, Next in UK and Gerber in US, led by (i) the adoption, adjustment and optimisation of our strategy to sell products to our certain OEM customers, such as Mamas &

SUMMARY

Papas and Impact Imports, with higher profit margin despite similar baby clothing products but different complexity with relatively smaller order quantities (as compared to those of Next and Gerber), for their more specified needs or higher standards; (ii) depreciation of GBP experienced by Next; and (iii) deteriorated sales performance of local mass markets in UK and US experienced by both Next and Gerber. In particular to item (i) above, under such strategy, we have been reducing sales to Next and Gerber which requested us to reduce the selling price of our products resulting in relatively lower gross profit margin for our sales to them. Meanwhile, we have been increasing sales to other OEM customers, especially those targeting at mid to high-end consumers with higher selling price, which enable us to have relatively higher gross profit margin and thus enhance our profitability with our existing capacity and resources. For further details of the said causes, please refer to the section headed “Business — Our customers — OEM customers” of this prospectus.

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

	FY2016		FY2017		For the five months ended			
	Gross		Gross		31 August 2016		31 August 2017	
	Gross profit	margin	Gross profit	margin	Gross profit	margin	Gross profit	margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>							
OEM business	67,035	20.3	67,189	26.2	32,376	24.9	28,110	30.5
OBM business								
- Self-operated retail stores	29,300	79.5	25,809	71.3	9,553	74.8	11,272	83.5
- Department store counters	33,259	82.4	31,684	81.7	11,902	87.1	10,811	86.0
- Wholesale	1,426	45.8	1,417	29.7	436	26.8	400	30.1
OBM sub-total	63,985	79.6	58,910	73.9	21,891	78.0	22,483	82.1
Total	131,020	32.0	126,099	37.6	54,267	34.3	50,593	42.3

The gross profit margin of our OBM business decreased from approximately 79.6% for FY2016 to approximately 73.9% for FY2017, mainly due to the clearance discount for certain third party brand products and additional promotional events and member discount offered in our self-operated retail stores. For the five months ended 31 August 2016 and 31 August 2017, the gross profit margin of our OBM business increased from approximately 78.0% to approximately 82.1%, which was mainly because we sold more of our own brand products that generated higher gross profit margin than that of third parties brand products.

For further details, please refer to the section headed “Financial information — Gross profit margin” of this prospectus.

SUMMARY

Highlights of consolidated statements of financial position

	As at 31 March		As at 31 August
	2016	2017	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total non-current assets	22,678	21,966	23,331
Total current assets	139,670	124,027	136,299
Total current liabilities	124,262	100,240	117,814
Net current assets	15,408	23,787	18,485
Total assets less current liabilities	38,086	45,753	41,816
Net assets	36,408	44,296	40,736

Our net current assets increased by approximately HK\$8.4 million from approximately HK\$15.4 million as at 31 March 2016 to approximately HK\$23.8 million as at 31 March 2017, and decreased to approximately HK\$18.5 million as at 31 August 2017. For further details of our financial position, please refer to the section headed “Financial information — Net current assets” of this prospectus.

Highlights of consolidated statements of cash flows

	FY2016	FY2017	For the five months ended	
			31 August	31 August
			2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(unaudited)</i>	
Operating cashflow before working capital changes	24,565	19,302	8,543	(519)
Net cash generated from/(used in) operating activities	24,464	12,853	(758)	(23,230)
Net cash generated from/(used in) investing activities	4,017	(4,271)	(2,470)	3,869
Net cash (used in)/generated from financing activities	(34,565)	7,772	16,448	10,757
Net (decrease)/increase in cash and cash equivalents	(6,084)	16,354	13,220	(8,604)
Cash and cash equivalents at end of the year/period	12,176	26,714	24,294	19,128

Our operating cashflow before working capital changes amounted to approximately HK\$19.3 million for FY2017, representing a decrease of approximately HK\$5.3 million, or 21.4%, from approximately HK\$24.6 million for FY2016. Such decrease was partly attributable to incurrence of listing expenses of approximately HK\$2.1 million and decrease in profit before tax for FY2017. As for the five months ended 31 August 2016 and 31 August 2017, the operating cashflow before working capital changes decreased from an inflow of approximately HK\$8.5 million to an outflow of approximately HK\$0.5 million, respectively, as a result of the incurrence of listing expense of approximately HK\$7.9 million during the five months ended 31 August 2017.

SUMMARY

Our cash and cash equivalents increased by approximately HK\$14.5 million from approximately HK\$12.2 million as at 31 March 2016 to approximately HK\$26.7 million as at 31 March 2017, and decreased to approximately HK\$19.1 million as at 31 August 2017. The increase for FY2017 as compared to FY2016 was mainly due to the increase in net cash generated from financing activities including the increase in advances from a director and new bank borrowings. The decrease for the five months ended 31 August 2017 as compared to the corresponding period in 2016 was mainly due to the increase in net cash used in operating activities including the listing expenses. For further details of our cash flows, please refer to the section headed “Financial information — Liquidity and capital resources” of this prospectus.

Comparable stores

For our OBM business, as a new retail store generally requires a period of time to achieve target revenue, only negligible revenue can be generated at the initial stage. Our result of operations is therefore affected by the opening of retail stores. In order to demonstrate the performance of our retail stores, we define comparable stores as stores which were operating throughout the full year/period for each of the financial years/periods under comparison. The comparable stores exclude (i) the newly opened stores which were not operating throughout the full year/period for each of the financial years/periods; (ii) the retail stores which had ceased operation in a period of time due to relocation; and (iii) the retail stores which had ceased operation during the respective financial year/period. The table below sets forth the financial information of our comparable stores over the Track Record Period:

	FY2016	FY2017	For the five months ended	
			31 August 2016 <i>(unaudited)</i>	31 August 2017
Number of comparable stores				
Self-operated retail stores	8	8	8	8
Department store counters	11	11	11	11
Total	<u>19</u>	<u>19</u>	<u>19</u>	<u>19</u>
Revenue of comparable stores <i>(HK\$'000)</i>	68,082	68,146	24,795	22,760
Profit before taxation for comparable stores <i>(HK\$'000)</i>	20,249	20,545	6,777	6,463
Percentage change of profit before taxation for comparable stores	N/A	1.5%	N/A	-4.6%

SUMMARY

Selected key financial ratios

The table below sets out certain financial ratios of our Group as at the dates indicated:

SELECTED KEY FINANCIAL RATIOS

	For the five months ended		
	FY2016/ As at	FY2017/ As at	31 August 2017/ As at
	31 March 2016	31 March 2017	31 August 2017
Current ratio ⁽¹⁾	1.1 times	1.2 times	1.2 times
Quick ratio ⁽²⁾	0.6 times	0.7 times	0.7 times
Return on total assets ⁽³⁾	6.9%	8.5%	4.6%
Return on equity ⁽⁴⁾	30.7%	28.0%	18.2%
Gearing ratio ⁽⁵⁾	167.5%	108.4%	163.5%
Debt to equity ratio ⁽⁶⁾	134.1%	48.1%	116.5%
Interest coverage ⁽⁷⁾	8.7 times	7.5 times	5.0 times

Notes:

1. Current ratio is calculated based on the current assets divided by current liabilities as at the respective year/period end.
2. Quick ratio is calculated based on the current assets less inventories divided by current liabilities as at the respective year/period end.
3. Return on total assets is calculated by the total comprehensive income (excluding the listing expenses) for the year/period divided by total assets multiplied by 100%. Return on total assets for the five months ended 31 August 2017 is annualised for illustrative purpose.
4. Return on equity is calculated by the total comprehensive income (excluding the listing expenses) for the year/period divided by total equity multiplied by 100%. Return on equity for the five months ended 31 August 2017 is annualised for illustrative purpose.
5. Gearing ratio is calculated based on the total debt (being our bank borrowing, amounts due to a related company, loan from a shareholder and finance lease liabilities) divided by the total equity as at the respective year/period end.
6. Debt to equity ratio is calculated based on the net debt (being our total debts net of cash and cash equivalents) divided by the total equity as at the respective year/period end.
7. Interest coverage ratio is calculated based on the profit before finance costs and income tax (excluding the listing expenses) divided by the finance costs for the respective year/period.

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

SUMMARY

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 include: (i) we have experienced a decrease in revenue during the Track Record Period; (ii) we rely significantly on our export sales, and the inherent risks associated thereto may adversely affect our business, results of operations and financial conditions; (iii) we are subject to risks of fluctuations in the exchange rate; (iv) we rely on a limited number of customers; (v) we have not entered into long-term contracts with our customers and there is no guarantee to our forecast future order quantities; (vi) our OEM customers may cancel their purchase orders placed to us; (vii) we are exposed to credit risk for our OEM customers; (viii) 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; (ix) increases in the prices of raw materials may materially and adversely affect our business, financial condition and results of operations; and (x) we may not be able to efficiently manage our inventory risks.

More details of the risks we are exposed to are set out in the section headed "Risk Factors" in this prospectus.

INDUSTRY AND COMPETITIVE LANDSCAPE

According to the F&S Report, there were approximately 10,000 manufacturers engaged in production of baby and child clothing and accessories in the PRC. We are regarded as one of the major suppliers in the PRC by our major customers in UK and US in 2016.

According to the F&S Report, there were approximately 300 to 500 establishments in the baby clothing, footwear and accessories market in Hong Kong. We contributed approximately 7.0% of market share in terms of retail sales revenue of baby clothing in Hong Kong in 2016.

LISTING EXPENSES

Our Directors expect that our total listing expenses, which are non-recurring in nature, will amount to approximately HK\$26.0 million (assuming the Offer Price of HK\$0.7 per Offer Share; being the mid-point of the indicative Offer Price range stated in this prospectus). Out of the total HK\$26.0 million of listing expenses, approximately HK\$2.1 million and HK\$7.9 million had been recognised in profit or loss in FY2017 and the five months ended 31 August 2017 respectively, our Directors expect to further recognise approximately HK\$6.9 million in our Group's profit and loss accounts for the remaining period in FY2018 and the remaining estimated listing expenses in the amount of approximately HK\$9.1 million will be deducted from equity upon the Listing.

SUMMARY

RECENT DEVELOPMENT

Regarding our business development efforts, we entered into a business relationship with a new OEM customer (“Customer F”) in January 2017, who became one of our five largest customers for the five months ended 31 August 2017. Customer F is a manufacturer and marketer of licensed children’s sports apparel for all of the major sports leagues and leading colleges in US. Up to the Latest Practicable Date, we have already obtained purchase orders from Customer F with a total amount of approximately HK\$12.4 million, in which approximately HK\$7.0 million was recognised as revenue for the five months ended 31 August 2017. Based on the forecast provided by Customer F, and our adjustment based on the pace of the Customer F’s orders we received recently, we estimated that the revenue to be generated from Customer F will be approximately HK\$20.1 million for FY2018.

We have also discussed order projections with our existing OEM customers. Our Directors estimated that, based on the projection provided by our customers, the revenue from Impact Imports and Acorn will increase by approximately 26.5% and 54.1% for FY2018, respectively, as compared with FY2017; while the revenue from Gerber will decrease by approximately 10.9%. On the other hand, based on the indication provided by Next and Mamas & Papas through their discussion with our Directors, our sales to them will decrease by approximately 69.7% and increase by approximately 5.2% for FY2018, respectively. Overall, having considered the achieved sales for the five months ended 31 August 2017 as compared with the projections or indication provided by our major customers for the same period, our Directors expect that the revenue and financial performance from our OEM business for FY2018 will remain stable.

Regarding our OBM business, we have relocated a self-operated retail store in Tseung Kwan O to a department store counter in the same district as the tenancy agreement of the self-operated retail store expired in September 2017. Also, in view of the upcoming Chinese New Year and for the purpose of promoting our brand awareness, as at the Latest Practicable Date, we had a short term pop-up store at Festival Walk with the licence period from December 2017 to February 2018 and another short term pop-up store at Hong Kong International Airport from December 2017 to April 2018. We also entered into agreements to set up short term pop-up stores at Lok Fu and Telford Plaza each from January 2018 to February 2018. We also launched online sales for Chinese New Year baby clothing collection in December 2017.

In light of the decrease in sales to Next and Gerber, increase in sales to other OEM customers at a higher gross profit margin, sales to Customer F which was our new customer in 2017, and the increased marketing initiatives for our OBM business, our Directors believe that our Group’s gross profit margin will be improved in FY2018. Overall, our Directors believe that our Group’s revenue and financial performance of FY2018 will remain stable as compared to those of FY2017.

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 August 2017 (being the date to which the latest audited financial statements of our Group were prepared).

SUMMARY

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\$0.7 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus) and assuming that the Offer Size Adjustment Option is not exercised, will be approximately HK\$44.0 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:

- i. Approximately HK\$15.7 million or 35.7% will be used for upgrading our production facilities. We plan to acquire two sets of colour digital printing machine and apply an extensive RFID technology in our production facilities. We also intend to upgrade our existing production facilities by replacement;
- ii. Approximately HK\$13.5 million or 30.7% will be used for enhancing our sales and marketing effort;
- iii. Approximately HK\$6.8 million or 15.5% will be used for strengthening our research and development capabilities for the PRC market;
- iv. Approximately HK\$4.5 million or 10.2% will be used for settlement of a revolving bank loan carrying interest at a rate of HIBOR +2.7% per annum; and
- v. Approximately HK\$3.5 million or 7.9% will be used for working capital of our Group.

For details of our use of proceeds from the Share Offer, please refer to the section headed “Future plans and use of proceeds” of this prospectus.

OFFER STATISTICS

The Offer Price per Offer Share is expected to be not more than HK\$0.78 and is expected to be no less than HK\$0.62.

	Based on the Offer Price of HK\$0.62 per Share	Based on the Offer Price of HK\$0.78 per Share
Market capitalisation upon Listing (<i>Note 1</i>)	HK\$248,000,000	HK\$312,000,000
Unaudited pro forma adjusted consolidated net tangible assets of our Group per Share (<i>Note 2</i>)	HK\$0.22	HK\$0.26

Note:

1. The calculations of the market capitalisation of our Shares is based on 400,000,000 Shares in issue 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 any option which may be granted under the Share Option Scheme and the Offer Size Adjustment Option).

SUMMARY

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

No dividends were declared for FY2016, FY2017 and the five months ended 31 August 2017 and our Group currently does not have any specific dividend policy. We declared a special dividend of HK\$16.0 million on 27 December 2017, in which approximately HK\$5.7 million will be applied to offset against the net amount due from Ms. Fung, and approximately HK\$10.3 million will be settled in cash by internal resources before the Listing. After which, all the amount due from Ms. Fung will be settled prior to the Listing. 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” of this prospectus.

DEFINITIONS

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

“Acorn”	Acorn Apparel (HK) Limited, a clothing sourcing company in Hong Kong for an Australian brand retailer and one of our five largest customers during the Track Record Period
“Ancillary Facilities”	the buildings for the usage of printing and embroidering process, warehouse and canteen with the total floor area of 7,981 sq.m. located at Industrial Park, Huangpu County, Zhongshan City, Guangdong Province, the PRC
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s), GREEN Application Form(s) and PINK Application Form(s), or where the context so requires, any of them
“Articles”	the amended and restated articles of association of our Company, conditionally adopted on 28 December 2017 to take effect on the Listing Date, a summary of which is set out in Appendix III to this prospectus, and as amended from time to time
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	our board of Directors
“Babies Trendyland”	Babies Trendyland Limited, a company incorporated in Hong Kong with limited liability on 8 June 2004 and an indirect wholly-owned subsidiary of our Company
“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
“Capitalisation Issue”	the issue of 299,999,899 Shares to be made upon capitalisation of the amount of HK\$2,999,998.99 standing to the credit of the share premium account of our Company as referred to in the section headed “A. Further information about our Company — 3. Written resolutions of the existing sole Shareholder” 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)

DEFINITIONS

“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 Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedure and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant(s)”	CCASS Clearing Participant(s), CCASS Custodian Participant(s) or CCASS Investor Participant(s)
“CG Code”	the Corporate Governance Code set out in Appendix 15 to the GEM Listing Rules
“close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“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”	Mansion International Holdings Limited (民信國際控股有限公司), an exempted company incorporated in the Cayman Islands under the Companies Law with limited liability on 17 May 2017
“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 Joyful Cat and Ms. Fung or, where the context so requires, any one of them. Details of their shareholding are set forth in the sections headed “Relationship with Controlling Shareholders” and “C. Further information about substantial Shareholders, Directors and experts — 1. Disclosure of interests” in Appendix IV to this prospectus
“core connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules

DEFINITIONS

“Deed of Indemnity”	the deed of indemnity dated 11 January 2018 executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its subsidiaries) regarding certain indemnities as more particularly set out in the section 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 11 January 2018 executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its subsidiaries), regarding certain non-competition undertakings as more particularly set out in the section headed “Relationship with Controlling Shareholders — Deed of Non-competition” in this prospectus
“Director(s)”	director(s) of our Company
“Eligible Employee(s)”	all full-time employee(s) of our Group who joined our Group on or before the Latest Practicable Date and who (a) is at least 18 years of age; (b) has a Hong Kong address and is a holder of Hong Kong Identity Card; (c) remains as a full-time employee of our Company or any of our subsidiaries, and is not on probation, as at the Latest Practicable Date; (d) has not tendered resignation or been given notice of termination of employment for any reason other than redundancy or retirement on or before the Latest Practicable Date; (e) is not the chief executive or directors of our Company or our subsidiaries; (f) is not an existing beneficial owner of Shares or of shares of any of our subsidiaries; (g) is not a connected person and/or a core connected person of our Company or will not become a connected person and/or a core connected person of our Company immediately upon completion of Share Offer; and (h) is not an associate of any of the above
“Employee Preferential Offer”	the offer by our Company of the Employee Reserved Shares for subscription by the Eligible Employees as described in the section headed “Structure and conditions of the Share offer — The Employee Preferential Offer” in this prospectus at the Offer Price (exclusive of brokerage of 1%, the SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) and on and subject to the terms and conditions stated herein and in the PINK Application Form(s)
“Employee Reserved Shares”	the 5,000,000 Offer Shares being offered for subscription by our Company at the Offer Price under the Employee Preferential Offer (representing approximately 5% of the total number of the Offer Shares being offered under the Share Offer), which are to be allocated out of the Placing

DEFINITIONS

“Euro”	the official currency of the European Union
“F&S” or “Frost & Sullivan”	Frost & Sullivan International Limited, 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
“FY2016”	the financial year ended 31 March 2016
“FY2017”	the financial year ended 31 March 2017
“FY2018”	the financial year ending 31 March 2018
“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
“Gerber”	Gerber Childrenswear LLC, a leading baby product seller headquartered in US and one of our five largest customers during the Track Record Period
“Government”	The Government of the Hong Kong Special Administrative Region
“ GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider
“Group”, “we”, “our” or “us”	our Company and our subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our existing subsidiaries, the existing subsidiaries of our Company and the business carried on by such subsidiaries
“HIBOR”	Hong Kong Inter-bank Offered Rate
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“HK eIPO White Form”	the application for the Public Offer Shares to be issued in applicant’s own name by submitting applications online through the designated website at www.hkeipo.hk
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at www.hkeipo.hk
“HKSCC”	Hong Kong Securities Clearing Company Limited

DEFINITIONS

“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
“Huangpu Factory”	the factory buildings and production facilities owned by Mei Li Hua located at Huangpu County, Zhongshan City, Guangdong Province, the PRC
“Impact Imports”	Impact Imports International Inc., a baby product seller headquartered in US and one of our five largest customers during the Track Record Period
“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, SPDB International Capital Limited and Haitong International Securities Company Limited
“Joint Lead Managers”	Alliance Capital Partners Limited, SPDB International Capital Limited, Haitong International Securities Company Limited, China Goldjoy Securities Limited, China Industrial Securities International Capital Limited, Shenwan Hongyuan Capital (H.K.) Limited and Yicko Securities Limited
“Joyful Cat”	Joyful Cat Limited, a company incorporated in the BVI with limited liability on 16 May 2017 which is wholly-owned by Ms. Fung and is one of our Controlling Shareholders
“Latest Practicable Date”	3 January 2018, 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
“LFC Partners”	LFC Partners Limited, a company incorporated in the BVI with limited liability on 22 May 2017 which is a direct wholly-owned subsidiary of our Company
“Listing”	the listing of our Shares on GEM
“Listing Date”	the date on which dealings in our Shares first commence on GEM
“Listing Department”	the listing department of the Stock Exchange
“Macao”	the Macao Special Administrative Region of the PRC

DEFINITIONS

“Mamas & Papas”	Mamas & Papas Limited, a leading baby product seller headquartered in UK and one of our five largest customers during the Track Record Period
“Mansion Success”	Mansion Success Holdings Limited, a company incorporated in the BVI on 13 February 2015 with limited liability, a direct wholly-owned subsidiary of our Company
“Mantex Supplies”	Mantex Supplies Company Limited, a company incorporated in Hong Kong on 21 July 1994 with limited liability, an indirect wholly-owned subsidiary of our Company
“Martex International”	Martex International Limited, a company incorporated in Hong Kong on 14 January 1998 with limited liability, an indirect wholly-owned subsidiary of our Company
“Mei Li Hua”	中山美麗華兒童服裝製品有限公司 (Mei Li Hua Children Garment Company Limited*), a company established under the laws of the PRC on 23 March 1993 with limited liability, an indirect wholly-owned subsidiary of our Company
“Memorandum”	the amended and restated memorandum of association of our Company adopted on 28 December 2017 to take effect on the Listing Date, a summary of which is set out in Appendix III to this prospectus, and as amended from time to time
“Mi’Des Associated”	Mi’Des Associated Partners Limited, a company incorporated in the BVI on 7 June 2004 with limited liability, an indirect wholly-owned subsidiary of our Company
“Min Bo”	廣州民博貿易有限公司 (Min Bo Trading Company Limited*), a company established under the laws of the PRC on 7 November 2012 with limited liability and a direct wholly-owned subsidiary of Mantex Supplies before its deregistration on 14 March 2016
“Mr. Cheung”	Mr. Cheung Desmond Lap Wai (張立維), an executive Director and the chief operating officer of our Company
“Mr. Fung”	Mr. Fung Man Sum (馮民森), the late father of Ms. Fung
“Ms. Fung”	Ms. Fung Sau Ying (馮秀英), an executive Director, the chairlady of the Board, the chief executive officer of our Company and one of our Controlling Shareholders
“Ms. Ho”	Ms. Ho Lai Ying (何麗英), an executive Director
“Ms. Luk”	Ms. Luk Sau Kuen (陸秀娟), a non-executive Director

DEFINITIONS

“NAV”	net asset value
“Next”	Next Sourcing Limited, a clothing sourcing company in Hong Kong, a subsidiary of Next plc, a public company listed in the London Stock Exchange and one of our five largest customers during the Track Record Period
“Offer Price”	the final price per Offer Share in Hong Kong dollar (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.78 per Offer Share and not less than HK\$0.62 per Offer Share at which the Offer Shares are to be subscribed pursuant to the Share Offer, to be determined as described under the section headed “Structure and conditions of the Share Offer — Pricing and allocation” in this prospectus
“Offer Share(s)”	the Public Offer Shares and the Placing Shares
“Offer Size Adjustment Option”	the option expected to be granted by our Company to the Placing Underwriters exercisable by the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters), pursuant to which our Company may be required to allot and issue up to an aggregate of 15,000,000 additional Offer Shares representing up to 15% of the Offer Shares initially available under the Share Offer, at the Offer Price solely to cover over-allocations in the Share Offer
“ PINK Application Form(s)”	the application form(s) to be sent to Eligible Employees to subscribe for the Employee Reserved Shares pursuant to the Employee Preferential Offer
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters at the Offer Price to selected professional, institutional and private investors as set forth in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Shares”	the 90,000,000 Shares at the Offer Price pursuant to the Placing, subject to reallocation and the Offer Size Adjustment Option as described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Underwriters”	the underwriters of the Placing, who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares

DEFINITIONS

“Placing Underwriting Agreement”	the conditional placing underwriting agreement relating to the Placing expected to be entered into on or about the Price Determination Date 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, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“PRC” or “China”	the People’s Republic of China which, for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, Macao and Taiwan
“PRC Legal Advisers”	Shu Jin Law Firm, the legal advisers to our Company as to PRC law
“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 Placing Price
“Price Determination Date”	the date, expected to be on or around 18 January 2018, 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 of the Offer Shares for subscription by the public in Hong Kong at the Offer Price on the terms and conditions described in this prospectus and the Application Forms
“Public Offer Shares”	10,000,000 Shares being initially offered by us for subscription pursuant to the Public Offer, subject to reallocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Public Offer Underwriters”	the underwriters of the Public Offer whose names are set forth in the section headed “Underwriting — Underwriters — Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the conditional public offer underwriting agreement dated 11 January 2018 relating to the Public Offer entered into by, among others, our Company, the Controlling Shareholders, the executive Directors, the Sole Sponsor and the Public Offer Underwriters, particulars of which are summarised in the section headed “Underwriting” in this prospectus

DEFINITIONS

“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
“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 28 December 2017, the principal terms of which are set out in the section headed “D. Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“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
“SP2016”	the five months ended 31 August 2016
“SP2017”	the five months ended 31 August 2017
“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
“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

DEFINITIONS

“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”	FY2016, FY2017 and SP2017
“U.K.” or “UK”	the United Kingdom
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“U.S.” or “US”	the United States of America
“U.S. Legal Advisers”	Nixon Peabody LLP, the legal advisers to our Company as to U.S. law
“US\$” or “USD”	United States dollars, the lawful currency of US
“ WHITE Application Form(s)”	the form(s) of application for the Offer Shares for use by the public who require such Offer Shares to be issued in an applicant’s own name
“ YELLOW Application Form(s)”	the form(s) of application for the Offer Shares for use by the public who require such Offer Shares to be deposited directly into CCASS
“Ying Huang”	中山嬰皇嬰兒用品有限公司 (Ying Huang Baby Products Company Limited*), a company established under the laws of the PRC on 3 June 2011 with limited liability and a direct wholly-owned subsidiary of Babies Trendyland before its deregistration on 23 March 2016
“Zhong Shan Huang Pu”	中山市黃圃鎮工業發展總公司 (Zhong Shan Huang Pu Industrial Development Co., Ltd.*), a collective enterprise (集體企業), one of the co-founders of Mei Li Hua and an independent third party
“£” or “GBP”	United Kingdom pounds, the lawful currency of UK
“%”	per cent

** for identification only*

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.

GLOSSARY

This glossary contains explanations of certain terms used in this prospectus in connection with our Group and our business. Some of these terms may not correspond to standard industry definitions.

“CAGR”	compounded annual growth rate
“FOB”	free on board, i.e. delivery of goods on board the vessel at the named port of origin (loading) at the seller’s expense. The buyer is responsible for main carriage/freight, cargo insurance and other costs and risks
“GDP”	gross domestic product
“OBM”	original brand manufacturing, a type of manufacturing under which the manufacturers develop and own the design of products which are marketed and sold under such manufacturers’ own brand names, and for the purpose of this prospectus, include products marketed and sold under brands of third parties
“Oeko-Tex [®] Standard 100”	a worldwide consistent, independent testing and certification system for raw, semi-finished, and finished textile products at all processing levels, as well as accessory materials used
“OEM”	original equipment manufacturing, a type of manufacturing under which products are manufactured, in whole or in part, in accordance with the specifications of the customers and are then marketed and sold under the customers’ brand names
“pH”	a measure of the acidity or alkalinity of a solution, numerically equal to seven for neutral solutions, increasing with increasing alkalinity and decreasing with increasing acidity. The pH scale commonly in use ranges from zero to 14
“RFID”	radio-frequency identification which uses electromagnetic fields to automatically identify and track tags attached to objects
“Sanitized [®] ”	a registered trademark and a quality seal, which only textile and polymer end products that have undergone comprehensive testing may bear
“SEDEX”	a global non-profit membership organisation providing platform for sharing responsible sourcing data on supply chains
“SMETA”	an audit procedure which is a compilation of good practice in ethical audit technique created by SEDEX

GLOSSARY

“Supima”	a non-profit organisation in US whose main objective is to promote the use of American Pima cotton, a type of cotton offers luxurious texture and long-lasting durability and has fibers with an extra-long staple, around the world and is involved in quality assurance and research programs
“Supima®”	Trademark of Supima, which is licensed to selected high-quality mills, textile and clothing manufacturers and retailers to use

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 dividend policy 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 and 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 (i) our business, (ii) the industry, (iii) the PRC, (iv) the Share Offer and (v) this prospectus. Investors should carefully consider the following information in conjunction with the other information contained in this prospectus.

RISKS RELATING TO OUR BUSINESS

We have experienced a decrease in revenue during the Track Record Period. Should our revenue continue to decrease in the future, the liquidity, financial position, business obligations and prospects of our Group will be adversely affected and investors will be exposed to high risk of investment in our Company.

For FY2016 and FY2017, we recorded revenue of approximately HK\$409.8 million and HK\$335.8 million, respectively, representing a 18.0% decrease, and we generated gross profit of approximately HK\$131.0 million and HK\$126.1 million, respectively, representing approximately 3.8% decrease. The revenue generated from Next has decreased by approximately 45.6% from approximately HK\$120.0 million for FY2016 to approximately HK\$65.2 million for FY2017; while the revenue generated from Gerber has decreased by approximately 39.8% from approximately HK\$94.1 million to approximately HK\$56.7 million. For SP2016 and SP2017, our revenue decreased from approximately HK\$158.0 million to approximately HK\$119.7 million, while gross profit reduced from approximately HK\$54.3 million to approximately HK\$50.6 million. Such decrease was mainly due to the drop of revenue contributed by Next and Gerber for SP2017. For further information, please refer to the section headed “Financial information — Period to period comparison of results of operations” in this prospectus.

While our revenue and gross profit has experienced a decrease during the Track Record Period, there is no assurance that our Group will be able to improve or maintain our future financial performance. If our Group cannot improve or maintain our financial performance, our operating results may fluctuate significantly and investors will be exposed to high risk of investment in our Company.

We rely significantly on our export sales, and the inherent risks associated thereto may adversely affect our business, results of operations and financial conditions.

During the Track Record Period, approximately 77.4%, 72.4% and 72.3% of our revenue, respectively, was generated from sales to overseas customers mainly in UK and US. Thus, we rely heavily on our export sales, and our financial performance may therefore be tied to the fluctuations in the global economy. In addition, due to the fact that some of our major OEM customers are located

RISK FACTORS

in UK, the decrease in exchange value of GBP caused by the slowdown of domestic economic growth and compounded by certain geopolitical changes, such as the withdrawal of UK from the European Union may affect our OEM customers' purchasing capability, and thus our revenue generated from OEM business.

There is a possibility that we cannot maintain the existing level of sales to overseas customers. If our overseas customers do not maintain their existing levels of purchase orders from us, our business, financial condition and results of operations may be adversely affected.

Our export sales operations are generally subject to certain inherent risks, including:

- exposure to local, economic, political and labour conditions;
- changes in laws, regulations, trade, monetary or fiscal policy;
- the imposition of trade barriers, such as export requirements, tariffs, taxes and other restrictions and expenses;
- compliance with the requirements of applicable sanctions, anti-bribery and related laws and regulations; and
- our inability to obtain, maintain or enforce intellectual property rights in the overseas countries to which our products are exported.

These uncertainties could have a material adverse effect on the continuity of our business, results of operation and financial condition.

We are subject to risks of fluctuations in the exchange rate.

During the Track Record Period, most of our revenue were denominated in USD and HKD, while most of our costs were denominated in RMB and HKD. Our profit margins will be adversely affected to the extent that we are unable to increase the USD denominated selling prices of our products sold to overseas customers or shift the exchange risk to our customers to account for the appreciation of the RMB against the USD.

Further, any significant fluctuation in the exchange rates between RMB and USD may result in increases or decreases in our reported costs and earnings, and may also materially affect our business and results of operations. Any future exchange rate volatility relating to the RMB may also give rise to uncertainties in the values of net assets, profits and dividends. However, we cannot assure you that such arrangement will be risk-free. Any loss resulting from such arrangement may materially and adversely affect our financial condition and results of operations.

RISK FACTORS

We rely on a limited number of customers.

For FY2016, FY2017 and SP2017, our five largest customers accounted for approximately 78.4%, 73.1% and 68.3% of our total revenue, respectively, and our largest customer accounted for approximately 29.3%, 20.8% and 25.3% of our total revenue, respectively. If our major customers cease to purchase or reduce substantially their order size in the future and we may not be able to seek alternative customers within a short period of time, the business and financial performance of our Group may be materially and adversely affected.

We have not entered into long-term contracts with our customers and there is no guarantee to our forecast future order quantities.

During the Track Record Period, our customers placed purchase orders to us from time to time instead of entering into long-term contracts with us, except for our retail customers and overseas wholesale customers. Hence, the volume of purchase orders from our customers may vary from time to time. There is no guarantee to our forecast future order quantities and our results of operations may fluctuate significantly in the future.

Our success depends on our customers' continued placing of purchase orders with us and our ability to develop new customers. There is no assurance that our customers will place new purchase orders to 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.

Our OEM customers may cancel their purchase orders placed to us.

Due to changes in market conditions, our customers may cancel their purchase orders and reimburse us for the cost of raw materials we purchased for the production. Despite having an established policy that in such occasion our customers have to reimburse us for raw material cost already incurred, cancellation of purchase orders in significant amount could materially and adversely affect our revenue should we fail to re-arrange our production schedule to utilise the production capacity freed up from such cancellation. Further, if such customers also fail to reimburse us, we may need to resort to litigation to enforce them to pay the relevant expenses. Such litigation and an adverse determination in any such litigation could result in substantial costs and diversion of resources and management attention, which could harm our business relationship with our customers, and may materially and adversely affect our business and financial performance.

We are exposed to credit risk for our OEM 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.

RISK FACTORS

During the Track Record Period, our Group's credit term granted to our OEM customers is 30 to 90 days in general. Trade receivables (after deducting allowance for relevant doubtful debts, if any) of our Group amounted to approximately HK\$16.3 million, HK\$24.3 million and HK\$40.4 million as at 31 March 2016, 31 March 2017 and 31 August 2017, respectively. The trade receivables (after deducting allowance for relevant doubtful debts, if any) turnover days are approximately 14.6 days, 26.4 days and 51.6 days for FY2016, FY2017 and SP2017, respectively. Up to 30 November 2017, approximately 98.3% of trade receivables as at 31 August 2017 had been settled. As at 31 March 2016, 31 March 2017 and 31 August 2017, approximately 73.9%, 79.2% and 80.6% 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 customers will be able to settle the outstanding balances owed to our Group in a timely manner. If there is any delay or default in payments made 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 cotton fabric and buttons, on commercially acceptable terms and in a timely manner.

During the Track Record Period, our purchases from our five largest suppliers, in aggregate, amounted to approximately 40.0%, 30.0% and 34.8% of the cost of sales, respectively. We have not entered into 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.

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 cotton fabric and buttons. We set out below our approximate purchase amount of cotton fabric and button and their respective approximate percentage to our total purchases of raw materials and accessories from our suppliers during the Track Record Period.

	FY2016		FY2017		SP2016		SP2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
					<i>(unaudited)</i>			
Cotton fabric	92,991	74.7	67,151	73.2	29,264	73.1	25,288	75.6
Button	10,515	8.4	6,278	6.8	2,317	5.8	1,433	4.3

RISK FACTORS

During the Track Record Period, the average purchase price of cotton fabric and button that are most commonly used in our Group's products is set out below:

	FY2016	FY2017	SP2017
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Cotton fabric (per pound)	30	28	29
Buttons (per 1,000 pieces)	210	172	173

Please refer to the section headed "Business — Raw materials and inventory control" in this prospectus for the explanation on the fluctuation.

We have not adopted any hedging policy for forward purchase of cotton fabric and buttons. 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 price of our raw material supplies substantially increases, we may incur additional costs to acquire sufficient quantity of these materials to meet our production needs. We may not be able to pass on these additional costs to our customers. For the sensitivity analysis on cost fluctuation of our raw materials, please refer to the section headed "Financial information — Sensitivity analysis — Material costs" in this prospectus.

We may not be able to efficiently manage our inventory risks.

Our business model requires us to manage a large volume of inventory effectively. Although we generally place orders with our suppliers after we have received sales orders from our customers, our customers may cancel orders with us and we may not be able to resell or utilise those materials and products. As at 31 March 2016, 31 March 2017 and 31 August 2017, the total value of our inventory were approximately HK\$67.5 million, HK\$51.1 million and HK\$51.2 million, respectively. Our cost of inventories recognised as an expense includes an allowance of approximately HK\$195,000 in respect of inventories made obsolete during FY2016.

If we fail to manage our inventory effectively, we may be subject to a risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs or write-offs. High inventory levels may also require us to commit substantial capital resources, preventing us from using that capital for other important purposes. Any of the above may materially and adversely affect our results of operations and financial condition.

We may experience weak liquidity as we had recorded net cash outflow from our operating activities in the past.

Our net cash used in operating activities for SP2017 was approximately HK\$23.2 million mainly due to the incurrance of listing expenses of approximately HK\$7.9 million, the increase in trade receivables of approximately HK\$16.1 million and the increase in inventories (as opposed to the decrease in inventories recorded in the corresponding period in 2016). Although we seek to manage

RISK FACTORS

our working capital, we cannot assure you that we will be able to match the timing and amounts of our cash inflows with the timing and amounts of our payment obligations and other cash outflows. As a result, there could be a period during which we experience net cash outflow from our operating activities.

If we are unable to manage our working capital effectively, we may experience another period of net cash outflow from our operating activities in the future. Thus, our financial position may be materially and adversely affected.

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

During the Track Record Period, we engaged external subcontractors for the certain procedures of our production process, such as printing and embroidering. For FY2016, FY2017 and SP2017, the total amount paid to these subcontractors accounted for approximately 8.0%, 7.8% and 2.3%, 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 licenses, 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 fail 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.

We may not be able to maintain our gross profit and gross profit margin of OBM business.

Our gross profit of OBM business amounted to approximately HK\$64.0 million, HK\$58.9 million and HK\$22.5 million for FY2016, FY2017 and SP2017, respectively. For FY2016, FY2017 and SP2017, our gross profit margin of OBM business was approximately 79.6%, 73.9% and 82.1%, respectively. Such profitability is partly attributable to our ability to maintain our sales volume and sales network, while controlling our production cost. However, we may not be able to sustain such profitability.

There are possibilities that we would incur a substantial amount of costs to sustain such growth rates. We cannot assure you that we will be able to maintain our gross profit and gross profit margin at or above the historical level during the Track Record Period as the average unit selling price of our products and our raw material prices may be affected by a variety of factors. In the event we are unable to maintain or manage our profitability, we may experience stagnant or negative growth, which can impair our business, financial condition and results of operations.

RISK FACTORS

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

Except for the Huangpu Factory, a substantial part of the premises occupied by us for our operations, such as our offices, the land for the Ancillary Facilities, warehouses, self-operated retail stores and department store counters are leased. For FY2016, FY2017 and SP2017, our rental expenses of our offices, the land for the Ancillary Facilities, warehouses, self-operated retail stores and department store counters amounted to approximately HK\$30.3 million, HK\$30.6 million and HK\$12.2 million, respectively.

During the Track Record Period, the lease agreements that we entered into for our retail stores typically require us to pay a monthly fixed rent plus an additional turnover rent calculated by a pre-agreed percentage of the turnover that exceeds the monthly fixed rent. We cannot assure you that our landlords will not increase the percentage of turnover rent to an unacceptable rate in the future.

Moreover, all of the leases are not subject to an option to renew. Hence, there is no assurance that the rental expenses for our leased premises will not increase significantly, or that 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 prior to their expiration. Termination of our leases may occur beyond our control, such as breaches of the tenancy agreements by the landlord. If any of these events occur, we may be required to relocate to alternative premises. 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. As a result, our business, financial condition and results of operations may be materially and adversely affected. Any significant increase in rental expenses or our incurring relocation expenditure may materially and adversely affect our operating cash flows.

We may be required to relocate from the Ancillary Facilities.

We have leased a parcel of land from an independent third party (the “**Landlord**”) as part of our production plant since 15 March 2003 and there are four buildings used for printing process, embroidering process, warehouse and canteen.

Such buildings of 7,981 sq.m. were without valid title certificates since we did not obtain the construction permits before the buildings were constructed. Pursuant to the Construction Law of the PRC (《中華人民共和國建築法》), the relevant authorities have the right to order the construction entity to stop construction while a construction project proceeds without a construction permit. If it is impossible to take measures to eliminate the impact, the relevant authorities have the right to order the construction entity to stop construction or demolish the buildings within a specified period and impose a fine of between 1% and 2% of the construction costs according to the Construction Quality Management Regulations of the PRC (《建設工程質量管理條例》).

To the best knowledge of our Directors, the total construction costs for the buildings without construction permits amounted to approximately RMB3.5 million. As a result, the relevant authorities may require us to demolish the buildings within a specified period and impose on us a fine of up to RMB70,000 calculated based on 2% of the construction costs.

RISK FACTORS

Further, our leases may be subject to risks that it will be terminated due to challenges from government authorities or other third parties, urban renewal or development, or that it may otherwise not be renewed by our landlord upon its expiration.

Should we be required to demolish the buildings or for any other aforementioned reason our leases are terminated or not renewed, we may have to relocate our facilities. We expect to take 11 weeks to relocate the facilities from the Ancillary Facilities to alternative premises and incur approximately RMB1.3 million in relocation expenses including transportation and labour costs. Our Directors anticipate that the estimated additional operational costs with our operations in the relocated properties would be approximately RMB0.2 million per year.

We may be required to make additional contributions to social insurance and housing provident funds under PRC laws and regulations, which may adversely affect our business, financial condition and results of operations.

Under the relevant PRC laws and regulations, we are required to contribute to social insurance and housing provident funds for our employees. As advised by our PRC Legal Advisers, the establishment of Housing Provident Fund system and the implementation on the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》) is dependent on the respective local government authorities' actual execution and regulatory policy. Based on the confirmation received from, and the interviews conducted with, the relevant local government authorities, our Group's contribution to social insurance and housing provident funds has therefore been in compliance with the regulatory policy of the relevant local government authorities.

We cannot assure that there will not be a different interpretation of regulatory policy by relevant government authorities in future which might take retrospective effect, and might trigger employees' complaints against us regarding the payment of the social insurance and housing provident funds or claims from government authorities with respect to the social insurance and housing provident fund contributions under PRC laws and regulations. In addition, we may incur additional expenses to comply with such laws and regulations by the PRC government or relevant local authorities. If we are required to make additional social insurance and housing provident funds, our business, financial condition and results of operations may be 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 the Huangpu Factory and the Ancillary Facilities at which our only production facilities are located. The operations of our production facilities 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 production facilities, or scheduled maintenance of our equipment and machinery. The occurrence of any unanticipated or prolonged disruptions, damage or destruction to our production facilities, 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

We may be subject to risks in relation to our intellectual property rights 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 our intellectual property rights and those of our customers (concerning mainly product design and specifications) that came into our possession for production. 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.

For our OBM business, intellectual property rights, especially trademarks, are important as they are important to our business and competitive position and they protect brand images. In respect of trademarks registered in Hong Kong which are material to our business as at the Latest Practicable Date, our Group owned 29 trademarks. In respect of trademarks in HK, the PRC and Taiwan, as at the Latest Practicable Date, our Group owned 10, 13 and six registered trademarks, respectively. For details regarding our intellectual property, please refer to the section headed “Business — Intellectual property” in this prospectus and section headed “B. Further information about the business of our Group — 2. Intellectual property rights of our Group” in Appendix IV to this prospectus.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any infringement of our intellectual property rights by third parties. There is no guarantee that no third party will make any claim against us. Intellectual property rights litigation can be costly and time-consuming, and could divert our management’s attention from business operations. In addition, should we be held liable for trademark infringement, our reputation as well as our business, financial condition and results of operations may be materially and adversely affected.

We may be subject to claims in connection with industrial accidents at our production facilities including employees’ compensation claims, common law 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.

There is a possibility that industrial accidents, whether due to malfunctions of machinery or other reasons, will occur in the future at our premises and that any compensation to be paid by us may not be fully covered by our insurance policy, or at all. If such accident happens, we may be subject to employees’ compensation claims, common law personal injury claims and/or administrative penalty, and if we are found to be liable and a substantial amount of damages are awarded by the court against us or a substantial 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.

RISK FACTORS

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

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, Ms. Fung, Mr. Cheung and Ms. Ho 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.

Our production processes also involve substantial amount of labour force. While we had not experienced any significant labour shortage during the Track Record Period, there is no assurance that we will not face such a problem in the future. For FY2016, FY2017 and SP2017, direct labour costs accounted for approximately 23.6%, 32.0% and 29.0%, respectively, of our cost of sales. In the future, direct labour cost may increase due to competition for skilled labour and any new legislation in the PRC which increases the minimum wages or employers’ obligations to pay employee benefits and welfare. If we fail to retain our existing staff members or new hires for a stable supply of labour force, we may have to incur additional labour costs in retaining or recruiting our labour force for better remuneration packages as well as recruitment fee. If any of our executive officers or key employees joins our competitors or forms a competing company, we may lose customers, suppliers, know-how, key professionals and staff. Any significant increases in labour costs for recruiting, training and retaining new hires and our failure to pass on the increased costs to our customers in a short term may have a material adverse impact on our business, financial condition and results of operations.

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 880 and 160 full-time employees in the PRC and Hong Kong, respectively. Whilst our employees did not go on 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 users of our end-products on the grounds that the use of our products has resulted in bodily injuries, property damage or other losses. In US and UK, the relevant laws and regulations impose strict liability on the manufacturers for the losses caused by defective products. The occurrence of such problems may result in recalls of our products and significant damage to our reputation. We cannot assure you that such incidents will not

RISK FACTORS

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.

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 all risks insurance for our inventories, property, plant and equipment, employees' compensation insurance, travel insurance, vehicle 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, although we maintain insurance 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.

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 "Business — Business strategies and future plans" in this prospectus. The successful implementation of our business plans depends on a number of factors, such as 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 on 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 colour digital printing machines, the extensive application of RFID technology, and the upgrade of existing production facilities. 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

RISK FACTORS

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 baby clothing 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 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.

RISKS RELATING TO THE INDUSTRY

We face intense competition in the baby clothing industry in Hong Kong and the PRC.

There is no specific market entry barrier for the baby clothing industry 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 baby clothing industry face global competition, where our Group faces more direct competition in the PRC.

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.

The baby clothing industry is very scattered and there are numerous players in the market. If we fail to keep up with the pace of technological developments in the baby clothing industry, we may lose our competitiveness.

Constant refinements to the manufacturing process and related machinery, and the introduction of new technologies are continually improving the quality, productivity, safety, speed, reliability and energy efficiency within the baby clothing industry. Technological improvements and increases in the level of automation, not only in the production process but also in the pre- and post- production

RISK FACTORS

stages, offer 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.

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 suppliers, our customers, 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.

Most of our Group's production operation and facilities 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.

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 impose 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.

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Uncertainties in the PRC's legal system could materially and adversely affect our Group.

Our Group's operations are subject to the PRC laws and regulations. The PRC'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, the PRC has promulgated laws and regulations dealing with economic matters, such as the issuance and trading of securities, shareholder rights, foreign investment, corporate organization 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.

RISKS RELATING TO THE SHARE OFFER

There has been no prior public market for our Shares and an active trading market for our Shares may not develop or be sustained.

Prior to the Share Offer, no public market for our Shares existed. Following the completion of the Share Offer, the Stock Exchange will be the only market on which the Shares are publicly traded. We cannot assure our investors that an active trading market for our Shares will develop or sustained after the Share Offer. In addition, we cannot assure our investors that our Shares will trade in the public market at or above the Offer Price subsequent to the Share Offer. The Offer Price for the Shares is expected to be fixed by the Price Determination Agreement, and may not be indicative of the market price of the Shares following the completion of the Share Offer. If an active trading market for our Shares does not develop or is not sustained after the Share Offer, the market price and liquidity of our Shares may be materially and adversely affected.

The trading price and volume of our Shares may be volatile, which may result in a substantial loss for our investors.

The trading price of our Shares may be volatile and may fluctuate widely in response to factors beyond our control, including variations in the level of liquidity of our Shares, changes in securities analysts' (if any) estimates of our financial performance, investors' perceptions of our Group and the general investment environment, changes in laws, regulations and taxation systems which affect our operations, and general market conditions of the securities markets in Hong Kong. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

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In addition to market and industry factors, the price and trading volume for our Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenue, net income and cash flow, success or failure of our efforts in implementing business and growth strategies and involvement in material litigation as well as recruitment or departure of key personnel, may cause the market price of our Shares to change unexpectedly. Any of these factors may result in large and sudden changes in the volume and trading price of our Shares.

Further, there will be a gap of several days between pricing and trading of the Offer Shares. The Offer Price of our Shares is expected to be determined on the Price Determination Date while our Shares will not commence trading on the Stock Exchange until the Listing Date. As a result, investors may not be able to sell or otherwise deal in our Shares during the period between the Price Determination Date and the Listing Date and hence are subject to the risk that the price of our Offer Shares could fall during the period before trading of our Offer Shares begins.

Future disposal or perceived disposal by our existing Shareholders of a substantial number of our Shares in the public market may materially and adversely affect the prevailing market price of our Shares.

Disposal of substantial amounts of our Shares in the public market after the completion of the Share Offer, or the perception that disposal may occur and adversely affect the market price of our Shares and materially impair our future ability to raise capital through offerings of our Shares. There is no assurance that our major Shareholders will not dispose of their shareholdings. Any significant disposal of our Shares by any of the major Shareholders may materially affect the prevailing market price of our Shares. In addition, these disposals may make it more difficult for us to issue new Shares in the future at a time and price we deem appropriate, thereby limiting our ability to raise further capital. We cannot predict the effect of any significant future disposal on the market price of our Shares.

Investors may experience difficulties enforcing their shareholders' rights because our Company is incorporated in the Cayman Islands, and the protection of minority shareholders under the Cayman Islands law may be different from that under the laws of Hong Kong or other jurisdictions.

Our Company is incorporated in the Cayman Islands and its affairs are governed by the Articles of Association, the Companies Law and common law applicable in the Cayman Islands. The laws of the Cayman Islands may differ from those of Hong Kong or other jurisdictions where investors may be located. As a result, minority Shareholders may not enjoy the same rights as pursuant to the laws of Hong Kong or such other jurisdictions. A summary of the Cayman Islands company law on the protection of minority Shareholders is set out in Appendix III to this prospectus.

RISK FACTORS

RISKS RELATING TO STATEMENTS IN THIS PROSPECTUS

Investors should read the entire prospectus and should not rely on any information contained in press articles or other media coverage regarding us and the Share Offer.

We strongly caution our investors not to rely on any information contained in press articles or other media regarding us and the Share Offer. Prior to the publication of this prospectus, there may be press and media coverage regarding the Share Offer and us. Such press and media coverage may include references to certain information that does not appear in this prospectus, including certain operating and financial information and projections, valuations and other information. We have not authorised the disclosure of any such information to the press or media and do not accept any responsibility for such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it and our investors should not rely on such information.

Certain facts, forecasts and other statistics in this prospectus obtained from publicly available sources have not been independently verified and may not be reliable.

Certain facts, forecast and other statistics in this prospectus are derived from various government and official resources. However, our Directors cannot guarantee the quality or reliability of such source materials. We believe that the sources of the said information are appropriate for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Nevertheless, such information has not been independently verified by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics. Further, we cannot assure our investors that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, our investors should consider carefully how much weight or importance should be attached to or placed on such facts or statistics.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, growth opportunities for existing operations, plans and objectives of management, certain pro forma information and other matters. The words “anticipate”, “believe”, “could”, “predict”, “potential”, “continue”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would”, “should” and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward looking statements, including, amongst others, those relating to our future business prospects, capital expenditure, cash flows, working capital, liquidity and capital resources are necessarily estimates reflecting the best judgment of our Directors and management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a consequence, these forward-looking statements should be considered in light of various important factors, including those set out in this section. Accordingly, such statements are not a guarantee of future performance and investors 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.

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 OFFER SHARES ARE FULLY UNDERWRITTEN

This prospectus is published in connection with the Share Offer which comprises the offer of 100,000,000 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

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

prospectus and the offer of the Offer Shares in other jurisdictions are subject to restrictions and may not 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 structure and conditions 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 Listing Department 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 26 January 2018. Shares will be traded in board lots of 4,000 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.

SHARE REGISTRARS AND STAMP DUTY

All Shares to be allotted, issued and transferred pursuant to the Share Offer will be registered on the 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 Conyers Trust Company (Cayman) Limited. Only Shares registered on the register of members of our Company in Hong Kong may be traded on GEM.

Dealings in the Shares registered on the 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

Solely for your convenience, this prospectus contains translations of certain RMB or USD into HKD, respectively at specified rates. For illustration purpose only, you may make conversion of USD and RMB into HKD in this prospectus based on the exchange rate as at the Latest Practicable Date set out below:

US\$1.00 = HK\$7.75
RMB1.00 = HK\$1.15

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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.

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
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DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Ms. Fung Sau Ying	House B, 23 Mei Wo Circuit Shatin, New Territories Hong Kong	Chinese
Mr. Cheung Desmond Lap Wai	Flat 16B, Tower 1, Providence Peak 8 Fo Chun Road Taipo, New Territories Hong Kong	American
Ms. Ho Lai Ying	Flat 29A, Block Five, Ocean View 1 Po Tai Street Ma On Shan Hong Kong	Chinese
<i>Non-executive Director</i>		
Ms. Luk Sau Kuen	House A, 23 Mei Wo Circuit Shatin, New Territories Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Mr. Choi Wing San Wilson	Flat A, 5/F Ming Kung Mansion Taikoo Shing, Quarry Bay Hong Kong	Chinese
Mr. Cheung Ping Kwan Timothy	Flat 6A, 6/F, Block 25 Lung Cheung Court 25 Broadcast Drive Kowloon, Hong Kong	Chinese
Mr. Leung Wai Yin	Room H, 9/F, Block 2 Cayman Rise 29 Ka Wai Man Road Kennedy Town 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
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PARTIES INVOLVED IN THE SHARE OFFER**Sole Sponsor****Alliance Capital Partners Limited**

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

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

SPDB International Capital Limited

Suites 3207-3212
One Pacific Place
88 Queensway
Hong Kong

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 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

SPDB International Capital Limited

Suites 3207-3212
One Pacific Place
88 Queensway
Hong Kong

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

China Goldjoy Securities Limited

Unit 1703-1706
17/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

China Industrial Securities International Capital Limited

32/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

Shenwan Hongyuan Capital (H.K.) Limited

Level 19
28 Hennessy Road
Hong Kong

Yicko Securities Limited

19/F Tung Ning Building
125-127 Connaught Road Central
Hong Kong

Legal advisers to our Company

As to Hong Kong law

**CFN Lawyers
in association with Broad & Bright**

27/F, Neich Tower
128 Gloucester Road
Wanchai
Hong Kong

As to PRC law

Shu Jin Law Firm

12/F, TaiPing Finance Tower
Yitian Road 6001
Futian District, Shenzhen
China

As to Cayman Islands law

Conyers Dill & Pearman

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER
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As to Macao law

Leong Hon Man Law Office

Avenida da Praia Grande no. 409
Edifício China Law, 12.º andar
Macao

As to US law

Nixon Peabody LLP

One Embarcadero Center, 18th Floor
San Francisco
CA 94111
United States

As to England and Wales law

Goody Burrett LLP

St. Martin's House
63 West Stockwell Street
Colchester
Essex CO1 1HE
United Kingdom

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

As to Hong Kong law

Benny Pang & Co

27/F, 100QRC
100 Queen's Road Central
Central
Hong Kong

As to PRC law

Commerce & Finance Law Offices

6/F, NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District, Beijing
China

Reporting accountants and auditor

BDO Limited

Certified Public Accountants
25/F, Wing On Centre
111 Connaught Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER
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Industry consultant

Frost & Sullivan International Limited

1706, One Exchange Square
8 Connaught Place, Central
Hong Kong

Internal Control Adviser

PRO-WIS Risk Advisory Services Limited

Unit 317, 3/F, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

Receiving bank

DBS Bank (Hong Kong) Limited

11th Floor, The Center
99 Queen's Road Central
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square, Hutchins Drive PO Box 2681, Grand Cayman KY1-1111, Cayman Islands
Headquarters and principal place of business in Hong Kong	7/F, 822 Lai Chi Kok Road Kowloon Hong Kong
Company's website	<u>www.mansionintl.com</u> <i>(information contained in such website does not form part of this prospectus)</i>
Company secretary	Mr. Cho Yee Chun <i>HKICPA, FCCA, ATiHK, CTA, ACS, ACIS</i> Flat B, 16/F, Block 1 Julimount Garden 8-12 Fu Kin Street Tai Wai, New Territories Hong Kong
Authorised representatives	Mr. Cheung Desmond Lap Wai 16B, Tower 1, Providence Peak 8 Fo Chun Road Taipo, New Territories Hong Kong Mr. Cho Yee Chun Flat B, 16/F, Block 1 Julimount Garden 8-12 Fu Kin Street Tai Wai, New Territories Hong Kong
Compliance officer	Mr. Cheung Desmond Lap Wai
Audit committee	Mr. Leung Wai Yin (<i>chairman</i>) Ms. Luk Sau Kuen Mr. Cheung Ping Kwan Timothy
Remuneration committee	Mr. Choi Wing San Wilson (<i>chairman</i>) Ms. Luk Sau Kuen Mr. Leung Wai Yin
Nomination committee	Ms. Fung Sau Ying (<i>chairlady</i>) Mr. Cheung Desmond Lap Wai Mr. Cheung Ping Kwan Timothy Mr. Choi Wing San Wilson Mr. Leung Wai Yin

CORPORATE INFORMATION

Principal share registrar and transfer office in the Cayman Islands

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Branch share registrar and transfer office in Hong Kong

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

Principal bank

DBS Bank (Hong Kong) Limited
11th Floor, The Center
99 Queen's Road Central
Hong Kong

Compliance adviser

Alliance Capital Partners Limited
Room 1502-1503A
Wing On House
71 Des Voeux Road Central
Central
Hong Kong

INDUSTRY OVERVIEW

The information that appears in this section has been prepared by Frost & Sullivan and reflects estimates of market conditions based on 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 are appropriate sources for such information and have taken reasonable care in extracting and 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 that would render such information false or misleading.

The information prepared by Frost & Sullivan and set out in this section has not been independently verified by us, the Sole Sponsor, the Joint Bookrunners, Joint Lead Managers, the Underwriters or any other party involved in the Share Offer and neither of them gives any representations as to its accuracy or correctness and accordingly it should not be relied upon in making, or refraining from making, any investment decision.

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan to provide industry information on baby clothing industry. The fee payable to Frost & Sullivan for preparing the F&S Report is HK\$480,000. Our Directors are of the view that the payment does not affect the fairness of the views and conclusions presented in the Frost & Sullivan Report.

In compiling and preparing the research report, Frost & Sullivan conducted primary research including telephone and face-to-face interviews with industry participants. Also, secondary research, which involved reviewing industry publications, annual reports and data based on its own database, was conducted. Frost & Sullivan presented the figures for various market size projections from historical data analysis plotted against macroeconomic data, as well as data with respect to the related industry drivers and integration of expert opinions. Frost & Sullivan assumed that (i) the social, economic and political environment is expected to remain stable and (ii) the key industry drivers are likely to continue to affect the market over the forecast period from 2017 to 2021.

Frost & Sullivan is an independent global consulting firm founded in 1961. It offers industry research, market strategies and provides growth consulting and corporate training. Its industry coverage includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom. The F&S Report includes information on data for the PRC baby clothing production industry and Hong Kong baby clothing retail industry.

BACKGROUND

Our Group's production facilities are located in the PRC. We sell our baby clothing products and clothing accessories for infants and toddlers through our OEM business to overseas brand companies mainly in UK and US; and OBM business mainly through our self-operated retail stores and department store counters in Hong Kong.

INDUSTRY OVERVIEW

Definition and segmentations of baby clothing

In general, baby clothing refers to the garment and fabric accessories for infants and toddlers (i.e. aged 0-2). By product category, the general categories include baby clothing, footwear and accessories. By materials, the major categories include cotton fabric and non-cotton fabric baby clothing.

Segmentation by product category		Segmentation by materials
Baby clothing	<ul style="list-style-type: none"> • Basic garment • Outdoor garment • Underwear 	Cotton fabric: <ul style="list-style-type: none"> • Cotton fabric is the common type of fabric used in baby clothing such as garment, underwear with the soft feeling to babies. Non-cotton fabric: <ul style="list-style-type: none"> • Non-cotton fabric baby clothing products are mainly footwear and accessories. • Wool, synthetic fibers may also be used.
Footwear	<ul style="list-style-type: none"> • Shoes • Slippers 	
Accessories	<ul style="list-style-type: none"> • Sleeping bags • Blankets • Swaddles • Fabric accessories (e.g. hats, towels) 	

Source: Frost & Sullivan

Value chain analysis

Upstream	Midstream	Downstream
Raw Material Supplier <ul style="list-style-type: none"> • Cotton Fabric • Button • Yarn • Others 	OEM ↓ Brand owner	Sales Channel <ul style="list-style-type: none"> • Department store • Standalone store • Online channel • Others ↓ Consumers

Source: Frost & Sullivan

- Raw material supplier is the key upstream player in baby clothing production markets. To ensure the quality of key raw materials such as cotton fabric and the end product, brand owners and OEMs tend to have preferences towards a certain raw material supplier.
- OEM is the midstream player for baby clothing production market. Generally, major brand owners may appoint sizable and high-quality OEMs for the manufacturing of baby clothing.
- The finished baby clothing products will be sold through various sales channels and purchased by downstream consumers.

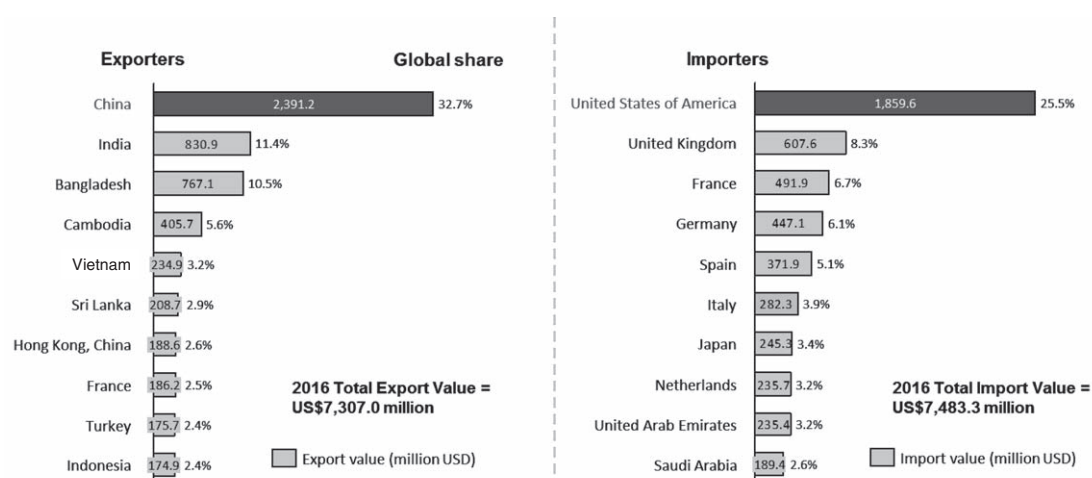
INDUSTRY OVERVIEW

OVERVIEW OF PRC BABY CLOTHING PRODUCTION MARKET

Key importing and exporting countries of baby clothing

In 2016, the PRC was the largest exporter of baby clothing products with an export value of approximately US\$2,391.2 million, representing a global share of approximately 32.7%. India and Bangladesh were the second and third largest exporters of baby clothing products with a global market share of 11.4% and 10.5% respectively in that year.

US was the largest importer of baby clothing products with a value share of 25.5% in 2016, followed by UK (8.3%) and France (6.7%).



Note: Values are extracted from Trade Map of ITC under HS Code: 6111 Babies' garments and clothing accessories, knitted or crocheted (excluding hats).

Source: International Trade Centre ("ITC"), Frost & Sullivan

PRC's export value of baby clothing

The export value of the PRC for baby clothing has seen a fluctuation with an overall moderate increase from approximately US\$2,388.8 million in 2012 to approximately US\$2,391.2 million in 2016. The decline during 2015 to 2016 was mainly attributable to strong appreciation in the Renminbi (RMB), slowdown in growth of overall manufacturing as well as weakened economic condition and demand in other markets.

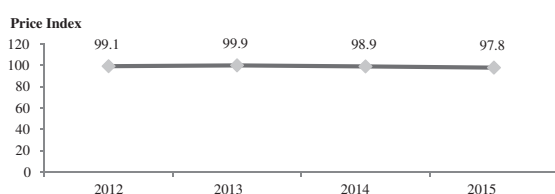
In 2016, US was the largest destination for export of baby clothing products from the PRC with an approximate share of 33.2%, followed by Japan (approximately 9.3%), France (approximately 7.2%), UK (approximately 6.5%) and Australia (approximately 3.5%).

INDUSTRY OVERVIEW

Costs of major raw materials

According to National Bureau of Statistics of China, purchase price index for textile raw material producers in the PRC has decreased from 99.1 in 2012 to 97.8 in 2015. The price index of cotton, major raw materials for production of baby clothing, has recorded a fluctuation during 2012 to 2016 with an overall decline. The downtrend of price for raw materials price indicates the decreasing cost of baby clothing manufacturers.

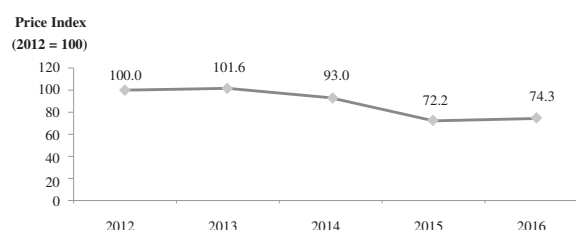
Purchase price index for textile raw material producers, the PRC, 2012-2015



Note: Latest available data (2015)

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

Price index of Cotton, China, 2012-2016



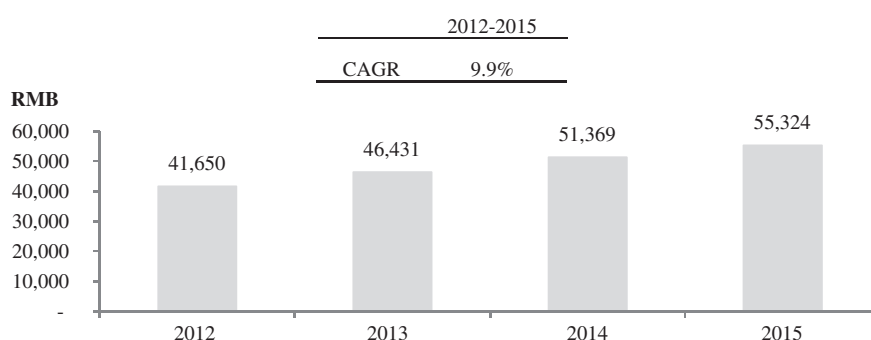
Note: The price index indicates the price trend of 2227B Cotton in China

Labour cost

Attributable to the inflation and demand for labour for manufacturing activities, the average wage of employed persons in urban areas in the manufacturing industry in the PRC has demonstrated steady growth from RMB41,650 in 2012 to RMB55,324 in 2015, representing a CAGR of approximately 9.9%.

As part of the major cost factor for baby clothing production, the higher labour cost in manufacturing indicates the additional financial burden on market participants in baby clothing production in the PRC.

Average wage of employed persons in urban areas in manufacturing industry, the PRC, 2012-2015



Note: Latest available data (2015)

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

INDUSTRY OVERVIEW

Key market drivers and opportunities

- **Higher emphasis on product quality safety**

Enhancing product quality and safety level is considered as the key focus for baby clothing manufacturers in the PRC. With the full implementation of “Technical Specifications for Infant and Children’s textile Product Safety” (《嬰幼兒及兒童紡織產品安全技術規範》) in 2016, infant textile products including clothing are required to comply with the safety requirements specified in category A (the highest safety category in the classification system) and labels should be applied on all products. Attributable to the increasing awareness and education on infant health and safety, the demand for high-quality and certified baby clothing products has risen in the PRC. Thus, baby clothing manufacturers are expected to improve product quality and production process and practices in order to meet the stringent quality and safety regulations. Baby clothing manufacturers that can uphold to such stringent quality and safety regulations will have the advantage in capturing the growing demand in the PRC baby clothing production industry.

Threats

Brand owners and its sourcing companies may adopt global sourcing strategy and make procurements from baby clothing manufactures in other Southeast Asian countries such as India, Bangladesh and Cambodia that have lower operating cost, and thus can offer lower price. PRC baby clothing manufactures may lose their customers and their financial conditions and results of operations may be materially and adversely affected.

Competitive landscape overview

The baby clothing production market in the PRC is highly fragmented with a number of manufacturers in different provinces. As in 2016, there were approximately 10,000 manufacturers engaged in the production of baby and child clothing and accessories. The majority of them are original equipment manufacturers (“OEMs”) engaging in production service for local brands, while a few of them serve as OEMs or original design manufacturers for foreign brands. The fragmented nature was also attributable to the diversification of retail brands for baby clothing products in the PRC. In terms of export value from PRC to UK and US for baby clothing products, our Group has a market share of 12.6% and 1.6% respectively in 2016. It is verified that our Group is the major supplier in the PRC for our major customers in UK and US in 2016.

Market competition lies in the several key factors including reputation, product quality, price and raw materials, production lead time and delivery. For those manufacturers engaged in production of baby clothing for foreign brands, those brand owners put high emphasis on quality and safety of products, particularly for those baby clothing and accessories sold in foreign end markets including US and UK as regulatory authorities in these countries generally have established specific safety standard. Meanwhile, those Chinese baby clothing manufacturers targeting export business may also face price competition from other Southeast Asian countries such as Bangladesh due to lower operation cost. On the other hand, some baby clothing manufacturers targeting local brands in the PRC usually focus on price competition.

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Entry barriers

- **Industry know-how in baby clothing manufacturing**

A sophisticated knowledge on design, product development, raw materials, textile engineering is recognised as pre-requisite in the baby clothing manufacturing market as manufacturers are generally required to comply with the quality and safety standard stipulated by brand owners. In addition, extensive knowledge on production and workflow management including embroidering, sewing, button attaching are considered fundamental to start a business in baby clothing production. Hence, technical requirements will be one of the main barriers for new entrants into the baby clothing production market.

- **Relationship with major customers**

Depending on the business models, a baby clothing manufacturer could act as an OEM and/or an OBM targeting different types of customers. Generally, brand owners, as the direct customer for OEM of baby clothing products, usually have preferences towards choosing suppliers who are capable of delivering high-quality products that fulfil the safety requirements. In particular, the existing OEM targeting foreign major consumption locations such as US and Europe have to meet a series of regulatory requirements and standards specific to baby clothing and accessories, such as those issued by United States Consumer Product Safety Commission and the European Union's General Product Safety Regulation 2005. Some retail brands may further conduct inspections on the manufacturing facilities with certain internal audit requirement, while new entrants without previous business relationship with major customers may not be able to fulfil customer specifications and standards.

- **Substantial capital investment**

The production business of baby clothing is considered capital intensive in nature as the initial capital investment is high for setting up production facilities, the acquisition of equipment and machineries as well as the recruitment and training of labour and specialists. Particularly, some of the baby clothing production processes such as sewing requires skilled labour. In view of the rising labour cost in the manufacturing industry in the PRC in recent years, significant and continued investment on improving production processes and efficiency is required for mass production, which is likely to put a heavy financial burden on new entrants to the baby clothing production industry.

INDUSTRY OVERVIEW

DEMAND OF U.K. AND U.S. BABY CLOTHING IN RETAIL MARKET

U.K. Retail Sales of Baby Clothing, Footwear and Accessories

As a result of the increasing inflation and falling disposable income started in 2016, retail sales of baby clothing, footwear and accessories recorded a fall to £1,067.8 million by 1.1% over 2015. However, the contraction was lower than total retail sales, compensated by the rise in birth rate in 2016.

It is anticipated that retail sales of baby clothing, footwear and accessories will climb up again slowly, driven by the increasing migrant mothers giving birth in UK and a recovery in disposable household income between 2017 and 2021. By the end of 2021, retail sales is expected to reach £1,143.3 million, growing at a CAGR of 1.8% for the forecast period.



Source: Frost & Sullivan

Market Drivers for the UK Baby Clothing Retail Market

- **Increasing number of babies**

The increase in number of babies born in Britain has become one of the major drivers for the UK baby clothing retail market. According to Office for National Statistics, the total number of births has increased by 2.1% over the past five years between 2012 and 2016. The increase in number of babies is expected to drive UK baby clothing market.

- **Rising disposable income and consumer confidence**

During the recession, the UK has suffered from falling spending in clothing and apparel. However, the UK macro-economic outlook appears positive between 2017 and 2021, with GDP increasing at a CAGR of 3.7% for the period. The rise of disposable income and consumer confidence is expected to drive the UK baby clothing retail market.

INDUSTRY OVERVIEW

U.S. Retail sales of baby clothing

The retail sales of baby clothing in the U.S. has increased from US\$3,581.5 million in 2012 to US\$3,856.6 million in 2016, representing a CAGR of 1.9%. The growth rate has dropped to 0.5% in 2016, attributable to the slowdown of the general economy environment. With the rise in expected GDP and disposable income, retail sales of baby clothing is estimated to increase steadily in the next five years at a CAGR of 2.1%, from US\$3,899 million in 2017 to US\$4,232.8 million in 2021.



Source: Organisation for Economic Co-operation and Development, Frost & Sullivan

Market Drivers for the US Baby Clothing Retail Market

- **Increasing annual disposable Income**

Rising disposable income has been one of the major drivers for the baby clothing retail market in the US. From 2012 to 2016, disposable income grew at a CAGR of 2.8%. Rising disposable income may imply consumers opting for higher quality and higher-priced products. This would drive the demand for better quality brands and premium products such as those made of organic materials.

- **Higher customer preference on clothing designs**

With the steadily growing disposable income and the US economy, and the changing preference towards fashionable designs in general, parents are now looking for stylish and fashionable designs when it comes to buying clothing for their children. As a result, baby clothing brands have been trying to provide a wider range of products for customers to choose from. By using more advanced manufacturing technologies such as 3D and digital printing, baby clothing products are made with finer and fashionable designs to create the effect which could not be made before, and to cater for the ever-changing demand of the US consumers, driving the US baby clothing industry.

INDUSTRY OVERVIEW

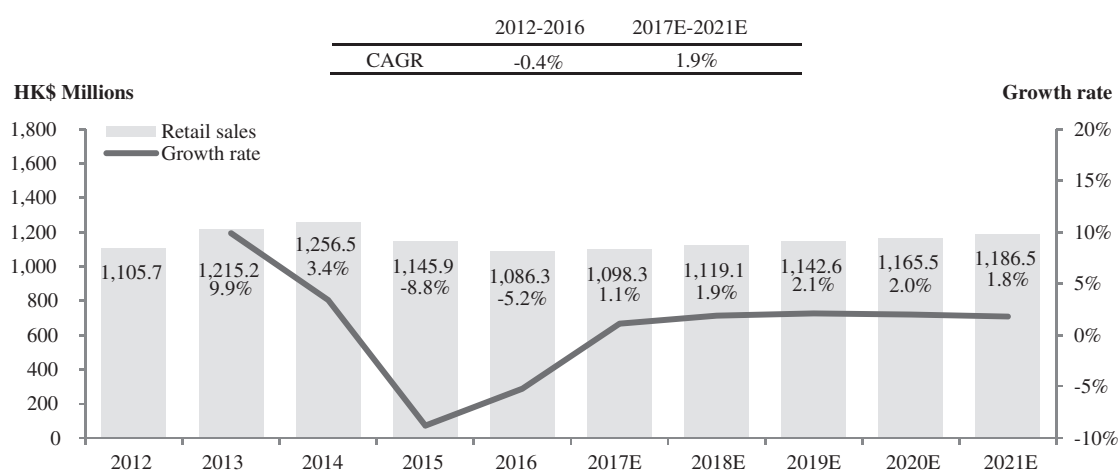
OVERVIEW OF HONG KONG BABY CLOTHING RETAIL MARKET

Market size

Hong Kong retail sector was going through a contraction in its growth rate during 2012-2016. As a result, this has greatly reduced retail sales of the baby retail market in Hong Kong, with retail sales falling from HK\$1,105.7 million in 2012 to HK\$1,086.3 million in 2016 at a CAGR of -0.4%. This is due to the falling number of visitors from the PRC from 2015 to 2016, who made up the majority of visitors to Hong Kong, and the ban on mainland Chinese giving birth in Hong Kong by the Hong Kong government.

However, due to the PRC's stable economic growth and relative strength of Hong Kong's currency, along with the two-child policy initiated by the PRC government in 2016, retail sales in Hong Kong is expected to recover from 2017 and will reach approximately HK\$1,186.5 million by the end of 2021.

Retail sales of baby clothing, footwear and accessories, Hong Kong, 2012-2021E



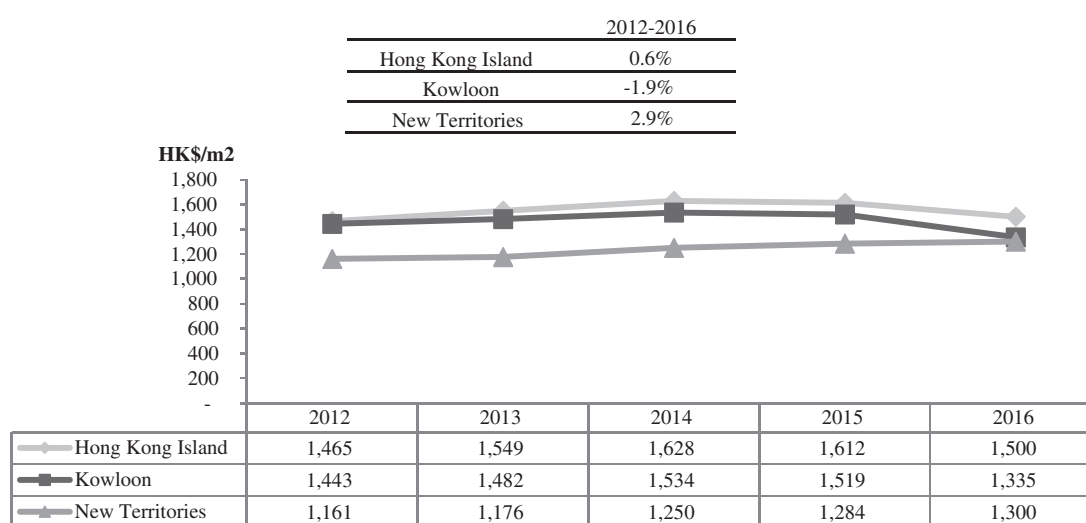
Source: Frost & Sullivan

INDUSTRY OVERVIEW

Average rents of private retail

From 2015 to 2016, luxury businesses such as jewellery, watches and luxury handbag retailers downsized their operations in response to fewer tourists visiting Hong Kong, leading to a huge drop in rents in prime locations such as Causeway Bay and Tsim Sha Tsui. Adding fuel to the fire, falling rents in prime locations are also caused by the slump in mainland Chinese spending on luxury goods. In spite of this, average rents in New Territories have risen at a CAGR of 2.9% during the period between 2012 and 2016, due to major shift in spending patterns among Chinese travellers with areas closer to the Chinese border.

Average rents of private retail, Hong Kong, 2012-2016



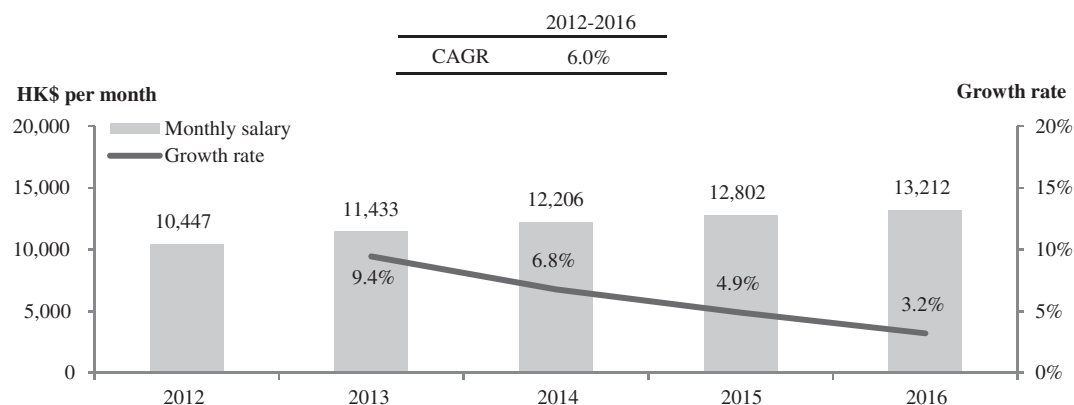
Source: Rating and Valuation Department of Hong Kong, Frost & Sullivan

INDUSTRY OVERVIEW

Salary of retail shop employees

From 2012 to 2016, the average monthly salary of retail shop employees has increased strongly at a CAGR of 6.0% from about HK\$10,447 to HK\$13,212. However, salary growth has slowed down recently, partly owing to falling retail sales in recent years, especially in 2015 and 2016.

Average monthly salary of retail shop employees, Hong Kong, 2012-2016



Source: Census and Statistics Department of Hong Kong, Frost & Sullivan

Key market drivers and opportunities

- **The boom of “anchor babies” from the PRC in Hong Kong**

According to Census and Statistics Department, the number of “anchor babies” from the PRC increased by 35,000 each year before the ban on mainland Chinese mothers giving birth in Hong Kong in 2013, where about 40% of some 90,000 annual births in the city were born by mainland parents at its peak. Despite the ban by the Government, in 2016, 4,775 births among a total of 60,803 births in Hong Kong were born by mainland mothers, who were not affected by the ban. Therefore, the boom of “anchor babies” has been one of the major drivers for Hong Kong baby clothing market recently.

- **Increasing spending on baby clothing**

Based on the latest 2014/15 Household Expenditure Survey published by the Government, the average household monthly spending on baby clothing in Hong Kong is approximately HK\$16, which is accounted for about 1.7% of the total spending on all types of clothing in 2015. This is up from HK\$12 in 2010 growing at a CAGR of 33.3% during the period of 2010-2015, based on the previous 2009/10 Household Expenditure Survey. The increasing spending on baby clothing has been attributable to the increasing household income during the past five years, which has been one of the main drivers for Hong Kong baby clothing market during the past few years.

INDUSTRY OVERVIEW

- **PRC's two-child policy**

In 2016, the PRC announced to ease its one-child policy, allowing families to have two children. This has helped push the number of births in the country to 17.9 million in 2016, an increase of 7.9% over 2015, according to China's National Health and Family Planning commission. As mainland Chinese visitors made up the majority of visitors to Hong Kong, the increased number of babies in the PRC is believed to benefit and drive the retail sales of baby clothing in Hong Kong for the coming years.

- **Rising consumer purchasing power**

According to National Bureau of Statistics of China, disposable incomes of Chinese residents have increased from RMB18,310.8 in 2013 to RMB21,966.2 in 2015. During the same period, consumption expenditure also increased from RMB13,220.4 to RMB15,712.4. The increased purchasing power is expected to underpin the growth of downstream demand for baby clothing production. Meanwhile, the consumption of baby clothing and accessories by parents has increasingly geared towards higher quality and safety products, which resulted in accelerating growth in retail sales of baby clothing in Hong Kong given that the Hong Kong retail market has been, in certain extent, driven by the consumption level and habit of customers from Mainland China.

Threats

- **Increasing number of branded baby clothing retailers**

The clothing industry is highly fragmented with a large number of small and medium-sized retailers. In order to differentiate their products which are considered homogeneous by consumers, branding is an effective marketing among garment retailers. In Hong Kong, the number of baby clothing brands is expected to grow in the foreseeable future given that this is a niche market which consists of a few branded market players. The baby and children's wear market has also seen increasing participation by large private labels as well as other luxury brands.

Competitive landscape

Hong Kong baby clothing retail market is fragmented with a significant number of baby clothing retailers. According to the Census and Statistics Department of Hong Kong, there were over 10,000 establishments in the clothing, footwear and allied products market in 2016 and over 95% of these establishments are small and medium-sized enterprises (SME) who engaged less than 50 employees. SME accounted for about 25% of the total sales revenue generated from the clothing, footwear and allied products market in Hong Kong in 2016. According to Frost & Sullivan's estimations, it is estimated that there were around 300 to 500 establishments in the baby clothing, footwear and accessories market in Hong Kong. These retailers also include luxury clothing retail brands who have expanded their business into the baby segment and some mass market fashion brands as well as other baby clothing specialists whose businesses are largely focused on the baby clothing and accessories segment.

INDUSTRY OVERVIEW

In terms of retail sales revenue, the top five branded baby clothing retailers in Hong Kong accounted for an aggregated market share of approximately 31.3% in 2016. Company A was the leading baby clothing retailer in 2016 with an estimated market share of approximately 8.3% in 2016. Our Group contributed approximately HK\$76.5 million, representing approximately 7.0% of market share in terms of retail sales revenue of baby clothing in Hong Kong in 2016. The following table illustrated the ranking and corresponding market share of each of the top five market players in 2016.

Ranking	Baby clothing retailers	Geographical coverage	No. of retail stores in Hong Kong	Estimated retail sales revenue of baby clothes in 2016 (HK\$ million)	Estimated market share (%)
1	Company A	US, Canada, UK, France, Ireland, Japan, Italy, PRC, Hong Kong, Mexico and Taiwan	8	90.2	8.3%
2	Company B	Global	24	84.0	7.7%
3	Our Group	Hong Kong	23	76.5	7.0%
4	Company C	Hong Kong, PRC, Macau	15	53.2	4.9%
5	Company D	Hong Kong, Macau, PRC, Taiwan, UAE	6	35.8	3.3%
Top five total				339.7	31.3%
Total retail sales revenue				1,086.3	100%

Note: The above ranking is concerned only with baby clothing retailers who have established their own brands and physical shops in Hong Kong.

Source: Frost & Sullivan

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.

This section sets forth a summary of the material laws and regulations applicable to our business operations in the PRC, Hong Kong, US, UK and Macao.

LAWS AND REGULATIONS IN THE PRC

1. Laws and Regulations relating to Foreign Investment

- (1) The establishment and registration of corporate entities in the PRC are governed by applicable laws in the PRC such as the Company Law of the PRC (《中華人民共和國公司法》) (the “**PRC Company Law**”), which was promulgated on 29 December 1993 and amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013, and the Regulations of the PRC on the Administration of Company Registration (《中華人民共和國公司登記管理條例》) (the “**Regulations on Company Registration**”), which was promulgated on 24 June 1994 and amended on 18 December 2005, 19 February 2014 and 6 February 2016. According to the PRC Company Law and the Regulations on Company Registration, except where laws on foreign investment stipulate otherwise, the PRC Company Law and the Regulations on Company Registration also apply to foreign-invested limited liability companies.
- (2) The establishment, alteration and approval procedures, and the registered capital requirements, foreign exchange, accounting practices, taxation and labour matters of a Sino-Foreign Equity Joint Ventures enterprise are regulated by the Law of the PRC on Sino-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》) (the “**SFEJV Law**”), which was promulgated on 8 July 1979 and amended on 4 April 1990, 15 March 2001 and 3 September 2016, the Implementing Regulations of the Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法實施條例》) (the “**Implementation Regulations to SFEJV Law**”), which was promulgated on 20 September 1983 and amended on 15 January 1986, 21 December 1987, 22 July 2001, 8 January 2011 and 19 February 2014 as well as other applicable laws and regulations in the PRC.
- (3) The establishment, alteration and approval procedures, and the registered capital requirements, foreign exchange, accounting practices, taxation and labour matters of a foreign-invested enterprise are regulated by the Foreign-Invested Enterprise Law of the PRC (《中華人民共和國外資企業法》) (the “**FIE Law**”), which was promulgated on 12 April 1986 and amended on 31 October 2000 and 3 September 2016, the Implementation Rules to 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 to FIE Law**”), which was promulgated on 12 December 1990 and amended on 12 April 2001 and 19 February 2014, the Execution

REGULATORY OVERVIEW

Opinions on Several Issues concerning Law Application for the Administration on the Examination, Approval and Registration of Foreign-invested Companies (《關於外商投資的公司審批登記管理法律適用若干問題的執行意見》), which was promulgated and came into effect on 24 April 2006, the Several Provisions on the Changes in Equity Interest of Investors in Foreign-Invested Enterprise (《外商投資企業投資者股權變更的若干規定》) which was promulgated and came into effect on 28 May 1997 and 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》), promulgated by the Ministry of Commerce of the PRC (the “Ministry of Commerce”) and came into force on 8 October 2016 and amended on 30 July 2017 as well as other applicable laws and regulations in the PRC.

- (4) Investment in the PRC by foreign investors and foreign-invested enterprises (the “**Foreign Party**”) is governed by the Provisions on Guiding the Orientation of Foreign Investment (《指導外商投資方向規定》) (the “**Provisions**”), which was promulgated on 11 February 2002 and came into effect on 1 April 2002, and the Guidance Catalogue of Industries for Foreign Investment (《外商投資產業指導目錄》) (the “**Catalogue**”), which was updated in 1995, 2002, 2004, 2007, 2011, 2015 and 2017. The latest Catalogue will be effective on 28 July 2017.

The Provisions and the Catalogue divide foreign investment industries into three categories: the encouraged industry, the restricted industry, and the prohibited industry. The catalogues of restricted industry and prohibited industry are also defined as Negative List for Access of Foreign Investment. Industries listed in the encouraged category are opened to the Foreign Party who usually can further enjoy supportive policies of the local government. Investment in the restricted industries can only be conducted by the Foreign Party within the scope of the relevant regulatory authority’s approval or in the form of sino-foreign equity or contractual joint ventures (usually with Chinese investors as the majority shareholder required). Prohibited industries are closed to foreign investment. Industries which are not listed in the Catalogue are generally classified as the permitted category.

Our PRC subsidiary is operating in the industries which are permitted industry and not listed in the Catalogue.

- (5) According to the laws and regulations mentioned above, the establishment and alteration of a foreign-invested enterprise has to be approved by the relevant authorities, the Ministry of Commerce or the relevant local authorities are responsible for approving the relevant joint venture contracts, articles of association of the foreign-invested enterprises and other substantial changes to the foreign-invested enterprises, such as changes in capital, equity transfer and consolidation. Our PRC subsidiary has obtained all the necessary government approvals.

REGULATORY OVERVIEW

2. Approval of the Reorganisation and Proposed Listings

- (1) On 8 August 2006, the Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “**M&A Rules**”) was promulgated, and the new regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors became effective on 8 September 2006 and was amended on 22 June 2009.

According to the M&A Rules, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special purpose vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the China Securities Regulatory Commission prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies.

- (2) According to the Guiding Book on the Access Administration of Foreign Investment (外商投資准入管理指引手冊) (The 2008 Version), which was promulgated by the Foreign Investment Department of the Ministry of Commerce (商務部外資司) on 18 December 2008, the M&A Rules do not apply to the merger and equity transfer of an established foreign-invested enterprise.
- (3) Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment and Financing and Return on Investment Conducted by PRC Residents via Special-Purpose Companies (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “**SAFE Circular No. 37**”), which was promulgated and became effective on 4 July 2014, replaces Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Financing and Return on Investment Conducted by PRC Residents via Special-Purpose Companies (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the SAFE Circular No. 75). According to SAFE Circular No. 37, prior to making contribution to a special-purpose company (“**SPC**”) with legitimate holdings of domestic or overseas assets or interests, a mainland resident shall apply to the relevant Foreign Exchange Bureau for foreign exchange registration of overseas investment. Mainland resident individuals shall refer to Chinese citizens holding the identity cards for mainland residents, military identity documents or identity documents for Chinese armed police force, and overseas individuals who do not hold any mainland

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legal identity document, but who have habitual residences within the territory of China due to relationship of economic interests. After a SPC has completed overseas financing, if the funds raised are repatriated to the mainland for use, relevant Chinese provisions on foreign investment and external debt management shall be complied with.

Under the relevant rules, failure to comply with the registration procedures set forth in SAFE Circular No. 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject the relevant domestic resident to penalties under PRC foreign exchange administration regulations.

SAFE Circular No. 37 does not apply to the shareholders of our Company as they are all permanent residents of Hong Kong and have no habitual residences within the territory of China. The shareholders are not required to file with the foreign exchange registration under SAFE Circular No. 37.

3. Laws and Regulations relating to Product Quality and Consumer Protection

- (1) Product quality supervision in the PRC is generally governed by 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 on 22 February 1993 and amended on 8 July 2000 and on 27 August 2009. Producers and sellers shall be liable for product quality in accordance with the Product Quality Law.

Under the Product Quality Law, consumers or other victims who suffer personal injury or property damage due to product defects may claim compensation from the producer as well as the seller.

Our PRC subsidiary as the role of producer shall be jointly liable for the compensation with the seller. In case of violations of the Product Quality Law, the responsible authorities have the right to impose fines on the violators, order them to suspend operation, and revoke their business licenses. In serious cases, even criminal liability may be incurred.

- (2) The principal legal provisions for the protection of consumer interests are set out in the Consumer Protection Law of the PRC (《中華人民共和國消費者權益保護法》) (the “**Consumer Protection Law**”), which was promulgated on 31 October 1993, came into effect on 1 January 1994 and amended on 27 August 2009 and 25 October 2013.

According to the Consumer Protection Law, the rights and interests of the consumers who buy or use commodities for the purposes of daily consumption or those who receive services are protected and all producers and distributors involved must ensure that the products and services will not cause damage to persons and properties. Violations of the Consumer Protection Law may result in the imposition of fines. In addition, the operator will be ordered to suspend operations and its business licence will be revoked. Criminal liability may be incurred in serious cases.

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- (3) According to the Standardization Law of the PRC (《中華人民共和國標準化法》), which was promulgated on 29 December 1988 and came into effect on 1 April 1989 and amended on 4 November 2017, and Regulations for the Implementation of the Standardization Law of the PRC (《中華人民共和國標準化法實施條例》), which was promulgated and came into effect on 6 April 1990, the enterprises must comply with the compulsory standards and shall comply with the national standards or trade standards when produce, sell or import relevant products.

Where the product of an enterprise fails to meet the compulsory standards, the competent authority has the power to suspend its production or sales, confiscate the product, supervise the destruction or conduct the necessary technical treatment; impose fines or administrative sanction; where serious consequences are caused and a crime is constituted, the authority shall investigate, according to the laws, the criminal responsibility of the persons held directly responsible.

- (4) According to the Measures for the Administration of the Export of Textiles (for Trial Implementation) (《紡織品出口管理辦法(暫行)》), which was promulgated and came into effect on 18 September 2006, before exporting textile products listed under the “Catalogue of Commodities Subject to Control” (《管理商品目錄》), an enterprise shall apply for the temporary export license and obtain the license from the local commercial authority. An enterprise that defrauds, forges, alters, buys or sells an export license would have its license confiscated by the authority according to the laws or have administrative sanctions imposed. Where the case constitutes a crime of illegal business operations or a crime of forging, altering, buying or selling official documents, certificates or seals, the related enterprise would be prosecuted according to the laws for its criminal liabilities and subject to prohibition order for a certain period of time.
- (5) Pursuant to the GB/T8685-2008 Textiles - Regulation on Standardised Symbols for Care Labels (《GB/T8685-2008紡織品維護標籤規範符號法》), which was promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China (中華人民共和國國家質量監督檢驗檢疫總局) and the Standardization Administration of the People’s Republic of China (中國國家標準化管理委員會) on 18 June 2008 and was implemented on 1 March 2009, the standard system of symbols for the labels of textile products was established. It also provides information on the most stringent care procedures that will not cause any irreversible damage to the products and specifies the methods of use of these symbols on the care labels. This standard includes the domestic care methods, like washing, bleaching, drying and ironing and pressing as well as professional textile care methods, such as dry cleaning and wet cleaning, but excluding industrial laundering.
- (6) Pursuant to the GB 18401-2010 National General Safety Technical Code for Textile Products (《GB 18401-2010國家紡織產品基本安全技術規範》) promulgated by the Standardization Institute of Textile Industry (紡織工業標準化研究所) and China National Textiles Supervision Testing Center (國家紡織製品品質監督檢驗中心) on 14 January 2011 and implemented on 1 August 2012, the textile products shall comply with the basic safety technical requirements, test methods and inspection rules. This code is applicable to the production and sales of garment, decorations and domestic textile products in China. Products can be exported according to the terms of the respective agreements.

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- (7) According to the GB 5296.4-2012 Instructions for Use of Consumer Products - Part 4: Textiles and Apparel (《GB 5296.4-2012消費品使用說明第4部分：紡織品和服裝》) promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (中華人民共和國國家質量監督檢驗檢疫總局) and the Standardization Administration of the People's Republic of China (中國國家標準化管理委員會) on 31 December 2012 and implemented on 1 May 2014, the “GB 5296.4-1998 Instructions for Use of Consumer Products - Instructions for Use of Textiles and Apparel” (《GB 5296.4-1998消費品使用說明紡織品和服裝使用說明》) was replaced and the basic principles, contents and requirements of the instructions for use of textiles and apparel, which is applicable to the textiles and apparel sold in the domestic market was specified.
- (8) According to the GB 31701-2015 Safety Technical Code for Infants and Children Textile Products (《GB 31701-2015嬰幼兒及兒童紡織產品安全技術規範》) promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (中華人民共和國國家質量監督檢驗檢疫總局) and the Standardization Administration of the People's Republic of China (中國國家標準化管理委員會) on 26 May 2015 and implemented on 1 June 2016, the standard of the safety technical requirements, test methods and inspection rules for infants and children textile products was specified. This standard is applicable to the infants and children textile products sold in China, but excludes the fabric plush toys, fabric handicraft, single-use sanitary products, suitcases, knapsacks, umbrellas, carpets and professional sportswear and so on.

Our PRC subsidiary shall comply with the regulations mentioned above.

4. Laws and Regulations relating to Importation and Exportation of Goods

- (1) Pursuant to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》), which was promulgated on 12 May 1994 and amended on 6 April 2004 and 7 November 2016, the Measures for the Record-keeping and Registration by Foreign Trade Dealers (《對外貿易經營者備案登記辦法》) (the “**Record-keeping and Registration Measures**”) was promulgated on 25 June 2004 and came into effect on 1 July in the same year and amended on 18 August 2016, foreign trade dealers who are engaged in the import or export of goods or technologies shall register with the Ministry of Commerce or its authorised bodies unless such registration is not required under the laws and administrative regulations and/or by the Ministry of Commerce. Where a foreign trade business operator fails to go through the filing and registration procedures according to the relevant provisions, the customs authority shall not process the formalities of declaration and clearance for the related commodities.
- (2) According to the Circular of the Ministry of Commerce on Relevant Issues Concerning the Record Keeping and Registration of the Foreign Trade Right by Foreign-invested Enterprises (《商務部關於外商投資企業外貿權備案登記有關問題的通知》), which was promulgated and came into effect on 17 August 2004, when foreign-invested enterprises which were duly established before 1 July 2004 apply for the addition of any import or export business to its approved scope of business, they must, in accordance with the Record-keeping and Registration Measures, complete the formalities of business addition

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to the enterprises' business licences and shall, in accordance with the relevant procedures, complete the formalities of record-keeping and registration on the strength of the approval certificate for its establishment, business licence with the business addition made, and any other document as required under the Record-keeping and Registration Measures.

- (3) Pursuant to the Administrative Provisions for the Registration of Customs Declaration Agents by the PRC Customs Authorities (《中華人民共和國海關報關單位註冊登記管理規定》), which was promulgated on 13 March 2014 and came into effect on the same day, “consignor or consignee of export or import goods” means any legal person, other organization or individual that directly imports or exports goods within the territory of the PRC. Consignors or consignees of import or export goods shall go through registration formalities with their local customs authorities in accordance with the applicable provisions. After completing the registration formalities with customs authorities, consignors or consignees of import or export goods may handle their own declarations at any customs port or any locality where customs supervisory affairs are concentrated within the customs territory of the PRC. The resulting PRC Customs Declaration Registration Certificate for Consignor or Consignee of Import or Export Goods shall be valid for a period of two years. Where a consignor or consignee of import or export goods fails to carry out the procedure of modification with the customs authority, he or she would be warned, ordered to rectify the conduct, and be subject to fines by the customs authority.
- (4) Pursuant to the Customs Law of the PRC (《中華人民共和國海關法》) promulgated by the Standing Committee of the NPC on 22 January 1987 and amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017 related regulations, the declaration of import and export goods maybe made by consignees and consignors themselves, and such formalities may also be completed by their entrusted PRC customs brokers that have registered with the PRC customs. The consignees and consignors for import or export goods and the PRC customs brokers engaged in the PRC customs declaration shall register with the PRC customs, and no enterprises or persons can make declarations without registering with the PRC customs or obtaining the relevant qualifications for declaration in accordance with the law. Where a consignor or consignee of import or export goods or the entrusted PRC customs broker has not registered with the customs authority or is engaging in declaration business without the qualification for declaration, it would be ordered by the customs authority to close down. Its illegal earnings would be confiscated and a fine of up to RMB10,000 would be imposed.
- (5) Principal regulations on the inspection of import and export commodities are set out in the Law of the PRC on Import and Export Commodity Inspection (《中華人民共和國進出口商品檢驗法》) promulgated by the Standing Committee of the NPC on 21 February 1989 and amended on 28 April 2002 and 29 June 2013 and the Regulations for the Implementation of the Law of the PRC on Import and Export Commodity Inspection (《中華人民共和國進出口商品檢驗法實施條例》) promulgated on 31 August 2005 and amended on 18 July 2013, 6 February 2016 and 1 March 2017. According to the aforesaid law and its implementation regulations, the Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) (“AQSIQ”) shall be in charge of the inspection of import and export commodities throughout the country. The local inspection and quarantine authorities set up by AQSIQ shall be responsible for the inspection of

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import and export commodities within areas under their jurisdiction. The import and export commodities that are subject to compulsory inspection listed in the catalogue compiled by AQSIQ shall be inspected by the commodity inspection authorities, and the consignor shall apply to the inspection and quarantine authorities for inspection in the places and within the time limit specified by AQSIQ. No permission shall be granted for the export of export commodities subject to mandatory inspection by the inspection and quarantine authorities until they have been found to be up to standard through inspection. While the import and export commodities that are not subject to mandatory inspection shall be subject to random inspection. Consignees and consignors themselves or its entrusted agent may apply for inspection to the commodity inspection authorities. Where a consignor or consignee violates the relevant provisions of this law and sells, uses or exports import and exported commodities without carrying out the required inspections, the authority has the power to confiscate the illegal earnings and impose a fine of not less than 5% but not more than 20% of the value of the commodities.

5. Laws and Regulations relating to Taxation

(1) Income tax

Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “**New Tax Law**”) and its implementation rules, which became effective on 1 January 2008 and was amended on 24 February 2017, tax payers are divided into resident enterprise and non-resident enterprise. A resident enterprise refers to an enterprise that is established inside the PRC, or which is established under the law of a foreign country (region) but whose actual institution of management is inside the PRC. A resident enterprise shall pay the enterprise income tax on its income derived from both inside and outside the PRC at the rate of 25%. A non-resident enterprise refers to an enterprise established under the law of a foreign country (region), whose actual institution of management is not inside the PRC but which has offices or establishments inside the PRC; or which does not have any offices or establishments inside the PRC but has income sources in the PRC. A non-resident enterprise having offices or establishments inside the PRC shall pay enterprise income tax on its incomes derived from the PRC as well as on incomes derived from outside the PRC but which has real connection with the said offices or establishments at the rate of 25%. A non-resident enterprise having no office or establishment inside the PRC, or whose income have no actual connection to its institution or establishment inside the PRC shall pay enterprise income tax on the incomes derived from the PRC at the rate of 10%.

According to the New Tax Law, our PRC subsidiary shall pay the enterprise income tax on its income derived from both inside and outside the PRC at the rate of 25%.

(2) Value-added tax

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) (the “**Provisional Regulations on VAT**”) which was promulgated on 13 December 1993 and amended on 10 November 2008, 6 February 2016 and 19 November 2017 and Detailed Rules for the Implementation of the Interim Regulation of the PRC 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 on 25 December

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1993 and amended on 27 January 1995, 18 December 2008 and 28 October 2011, all entities or individuals in the PRC engaging in the sale of goods, provision of processing services, repairs and replacement services and the importation of goods are required to pay value-added tax (“VAT”). VAT payable is calculated as “output VAT” minus “input VAT”. The rate of VAT is usually 17% and, in certain limited circumstances, is 13%, subject to the products involved.

According to the Decisions of the Standing Committee of the National People’s Congress on the Application of Provisional Regulations on Tax such as VAT, Consumption Tax and Business Tax to Foreign-invested Enterprises and Foreign Enterprises (《全國人民代表大會常務委員會關於外商投資企業和外國企業適用增值稅、消費稅、營業稅等稅收暫行條例的決定》), which was promulgated and came into effect on 29 December 1993, foreign-invested enterprises whose products are exported directly or through export enterprises shall be granted, in accordance with the Provisional Regulations on VAT, a one-off VAT rebate on the strength of the export declaration and VAT-paid certificate.

(3) Customs duties

Import and export business of foreign-invested enterprises are governed by the Regulations on Import and Export Duties of the PRC (《中華人民共和國進出口關稅條例》), which was promulgated on 23 November 2003 and came into effect on 1 January 2004, and amended on 8 January 2011, 7 December 2013, 6 February 2016 and 1 March 2017, the Circular of General Administration of Customs on relevant Import Tax Policies for Further Encouraging Foreign Investment (《海關總署關於進一步鼓勵外商投資有關進口稅收政策的通知》), which was promulgated on 22 November 1999 and came into effect on 1 September 1999, the Circular of the Ministry of Foreign Trade and Economic Cooperation on relevant issues concerning the import of equipments by foreign-invested enterprise (《對外貿易經濟合作部關於外商投資企業進口設備有關問題的通知》), which was promulgated and came into effect on 8 November 2000, and other applicable laws and regulations.

According to such provisions, our PRC subsidiary, as the foreign-invested enterprises, when satisfying certain conditions, may be exempted from import duties and taxes for import of equipments, technologies and accessories.

(4) Transfer pricing

Connected transactions between connected parties are governed by the Implementation Measures for Special Taxation Adjustments (Trial) (《特別納稅調整實施辦法(試行)》) which was promulgated by the State Administration of Taxation (國家稅務總局) (“SAT”) on 8 January 2009. The Implementation Measures shall apply to the administration by competent tax authorities over special tax adjustments, including companies’ transfer pricing, advance pricing arrangements, cost sharing agreement, controlled foreign enterprises, thin capitalisation and general anti-avoidance. If any product involves connected transactions in violation of the principle of equity, the tax authority has the power to adjust the taxable income of the company following certain procedures. The related company shall submit an annual connected transactions reporting form to the tax authority, except for companies which meet certain conditions.

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According to the Circular on Strengthening the Supervision and Investigation over Cross-border Connected Transactions (《關於強化跨境關聯交易監控和調查的通知》) promulgated by SAT on 6 July 2009, any enterprise with limited functions and risks set up by a multinational corporation in the PRC, which is solely responsible for production (processing of supplied or imported materials), distribution or contracted research and development and so on, shall not bear market and decision making risks in financial crisis, and shall maintain a reasonable level of profit according to the transfer pricing principle that matches risk with profit. If any enterprise with limited functions and risks incurs any loss, no matter whether such enterprise meets the standards to prepare the contemporaneous documents, such enterprise shall prepare and submit the contemporaneous documents and other relevant materials to the supervising tax authority before 20 June in the following year. The circular has been repealed since 1 May 2017.

Pursuant to the Announcement on Matters Relating to Improved Administration of Related Party Declarations and Contemporaneous Documentation (《完善關聯申報和同期資料管理有關事項的公告》), which was promulgated and implemented by the SAT on 29 June 2016, domestic enterprises shall submit an annual connected transactions reporting form together with a report based on the country of operation. An enterprise is required to prepare at the request of tax authorities the contemporaneous documents based on its taxable years. Chapters 2 and 3, Articles 74 and 89 of the Implementation Measures for Special Taxation Adjustments (Trial) (《特別納稅調整實施辦法(試行)》) have been repealed at the same time since 2016.

The Management Measures for Special Taxation Investigation Adjustments and Mutual Agreement Procedures (《特別納稅調查調整及相互協商程序管理辦法》) was promulgated by the SAT on 17 March 2017 and implemented on 1 May 2017. The measures provide that tax authorities shall control and manage special taxation adjustments of enterprises by means of review of related party declarations, contemporaneous documentation and control of profit level. Where special taxation adjustments risk is identified within an enterprise, a “Notice of Tax Affairs” (《稅務事項通知書》) would be delivered by tax authorities to remind the enterprise the existing tax risk. If an enterprise requests the tax authorities to confirm special taxation adjustment issues including the pricing principle and method of connected transactions, the tax authorities shall initiate the special taxation investigation procedure. When a tax authority carries out an investigation of transfer pricing, it shall conduct comparable analysis and on such basis, choose a reasonable transfer pricing method to analyse and assess the related transactions of an enterprise. Transfer pricing methods include comparable uncontrolled pricing method, resale pricing method, cost plus method, trading net profit method, profit sharing method and other methods which comply with the independent trading principles. When the tax authority analyses and assesses whether the connected transaction of an enterprise subject to investigation conforms with the independent trading principles and if the comparable enterprise and the investigation target locate in different economic environments, the authority shall analyse specific geographical factors such as cost reduction and market premium and choose a suitable transfer pricing method to confirm the contribution to profit by the specific geographical factors. Upon implementation of the measures, Chapters 4, 5, 11 and 12 of the Implementation Measures for Special Taxation Adjustments (Trial) have been repealed at the same time.

Our PRC subsidiary shall submit the form declaring the information of connected transactions and it may be subject to special taxation adjustment by the local tax authorities.

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6. Laws and Regulations relating to Foreign Exchange

(1) Foreign currency exchange

The principal regulation governing foreign currency exchange in the PRC is the Foreign Exchange Administration Rules of the PRC (《中華人民共和國外匯管理條例》) (the “**Foreign Exchange Administration Rules**”), which was promulgated on 29 January 1996 and amended on 14 January 1997 and 5 August 2008. Under these rules, the Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfers, direct investment, investment in securities, derivative products or loans, unless prior approval of the State Administration of Foreign Exchange (“**SAFE**”) or of its branches is obtained.

Under the Foreign Exchange Administration Rules, our PRC subsidiary may purchase foreign exchange without the approval of the foreign exchange administrative authority for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and exchange in securities, derivative products abroad are subject to registration with SAFE and approval or filing with the relevant governmental authorities (if necessary). If our PRC subsidiary violates the regulations on foreign exchange, the competent authorities are entitled to order it to make rectifications, give warning, confiscate its illegal earnings and impose fines.

(2) Dividend distribution

The principal regulations governing distribution of dividends paid by PRC enterprise include (i) the PRC Company Law; (ii) the FIE Law; (iii) the Implementation Rules to FIE Law; (iv) the SFEJV Law and the Implementation Regulations to SFEJV Law. Under the above laws and regulations, domestic companies and foreign-invested enterprises in the PRC may pay dividends only from accumulated after-tax profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain reserve funds unless these accumulated reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends. Under the relevant PRC laws, no net assets other than the accumulated after-tax profits can be distributed in the form of dividends.

The PRC and the government of Hong Kong signed the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the “**Arrangement**”) on 21 August 2006. According to the Arrangement, a withholding tax rate of no more than 5% applies to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that holds at least 25% of the capital of the PRC company.

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The Notice on Issues relating to the Implementation of the Dividend Provision in Tax Treaties (關於執行稅收協定股息條款有關問題的通知) (the “**Notice 81**”) was promulgated on 20 February 2009 by the State Administration of Taxation of the PRC (中國國家稅務總局). The Notice 81 reaffirms the qualification for dividend recipient to enjoy tax preferential treatment levied at 5% rate as follows: (i) the recipient of the dividend must be a corporation; (ii) the recipient’s ownership in the Chinese company must meet the prescribed direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends; and (iii) the deal or arrangement is not mainly for the purpose of obtaining the tax preferential treatment.

The shareholder of our PRC subsidiary was incorporated in Hong Kong and holds 100% of its interest. The shareholder of our PRC subsidiary could enjoy tax preferential treatment levied at 5% rate after obtaining an approval from the tax authorities.

7. Laws and Regulations relating to Labour Social Insurance and Work Safety

- (1) The Labour Law of the PRC (《中華人民共和國勞動法》) was promulgated on 5 July 1994 and amended on 27 August 2009 and the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) which was promulgated on 29 June 2007 came into effect on 1 January 2008 and was amended on 28 December 2012.

According to the laws, our PRC subsidiary should conduct written labour contracts with its employees to establish labour relationship. The wages paid by our PRC subsidiary to employees shall not be less than the minimum wage rate in the place where it is located. In certain circumstances, financial compensation shall be paid to an employee if our PRC subsidiary terminates the employment relationship with him. It shall provide relevant education and training to employees and provide healthy and safety working conditions in conformity with the relevant national rules and standards and provide regular health checks for the employees who are engaged in hazardous work. If any enterprise, as an employer, infringes the legitimate interests of employees, the labour administrative department is entitled to warn and order the enterprise to make rectifications and order the enterprise to pay remuneration, financial compensation and damages to the employees. Where serious consequences arise, the enterprise is liable to criminal liability.

- (2) According to the Labour Law of the PRC, the Labour Contract Law of the PRC, the Provisional Regulations on Collection and Payment of Social Insurance Premium (《社會保險費徵繳暫行條例》) which was promulgated and came into effect on 22 January 1999, the Interim Measures on the Administration of Registration of Social Insurance (《社會保險登記管理暫行辦法》) which was promulgated and came into effect on 19 March 1999, and the Regulations on Labour Security Supervision (《勞動保障監察條例》) which was promulgated on 1 November 2004 and came into effect on 1 December 2004, employers shall pay social insurance for employees as prescribed by laws.

The Social Insurance Law of the PRC (《中華人民共和國社會保險法》) which was effective from 1 July 2011 specified the payment of the pension insurance, work-related injury insurance, unemployment insurance, medical insurance and the maternity insurance in details.

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Pursuant to the Decision of the State Council on Establishing a Unified System of the Basic Pension Insurance for Enterprise Employees (《國務院關於建立統一的企業職工基本養老保險制度的決定》) which was promulgated and came into effect on 16 July 1997, the Circular on Relevant Issues concerning the Improvement of the Basic Pension Insurance Policy for Urban Employees (《關於完善城鎮職工基本養老保險政策有關問題的通知》) which was promulgated and came into effect on 22 December 2001, the Regulations on Work-Related Injury Insurance (《工傷保險條例》) which was promulgated on 27 April 2003 and amended on 20 December 2010, the Regulations on Unemployment Insurance (《失業保險條例》) which was promulgated and came into effect on 22 January 1999, the Circular on the Issuance of Provisions on the Administration of Basic Medical Insurance for Urban Employees (《關於印發城鎮職工基本醫療保險業務管理規定的通知》) which was promulgated and came into effect on 5 January 2000, the Trial Measures on Maternity Insurance for Enterprise Employees (《企業職工生育保險試行辦法》) which was promulgated on 14 December 1994 and came into effect on 1 January 1995 and related regulations, employers are required to pay pension insurance, work-related injury insurance, unemployment insurance, medical insurance as well as maternity insurance for employees.

In addition to the above, the regulatory authorities of government at the provincial, municipality and district level have also issued relevant policies from time to time for regulation.

Our PRC subsidiary shall pay social insurance for employees as prescribed by the laws and regulations mentioned above. If our PRC subsidiary fails to make social insurance contributions in full and on time, the competent authority is entitled to order the related company to rectify such failure within a specified time limit. The violating company will be charged an overdue fine at 0.05% per day for the overdue period. Where an employer still fails to pay the outstanding social insurance contributions in a specified time limit, the relevant administrative department will impose a fine of one to three times of the outstanding amounts.

- (3) The Regulations on Management of Housing Provident Fund(《住房公積金管理條例》), which was promulgated on 3 April 1999 and amended on 24 March 2002, requires enterprises to register with the relevant housing provident fund management centre within 30 days from the date of establishment, open housing provident fund accounts with the designated bank and pay and deposit housing provident fund for employees with the rate not less than five percent of the average monthly salary of the employee concerned in the previous year.

The regulatory authorities of government at the provincial, municipal and district level have also issued relevant policies from time to time to regulate the payment for housing provident fund.

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Our PRC subsidiary shall pay housing provident fund for employees as prescribed by the laws and regulations mentioned above. If our PRC subsidiary fails to complete the payment and deposit registration of housing provident fund or fails to open housing provident fund accounts for its employees, the housing provident fund management centre shall order it to complete the formalities within a prescribed time limit. Where it fails to do so after the expiry of the time limit, a fine of more than RMB10,000 but less than RMB50,000 shall be imposed. Where the subsidiary fails to pay the expired housing provident fund 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; an application may be made to the people's court for compulsory enforcement.

- (4) Pursuant to Administrative Provisions on the Employment of Taiwan, Hong Kong and Macao Residents in the Mainland of China (《台灣香港澳門居民在內地就業管理規定》) which was promulgated on 14 June 2005 and effective on 1 October 2005, the company should sign labour contracts and apply for the Employment Permits for Persons from Taiwan, Hong Kong or Macao. Where an employing entity plans to hire the persons from Taiwan, Hong Kong and Macao or accept the assigned persons from Taiwan, Hong Kong and Macao, it shall apply for the Employment Permits for Persons from Taiwan, Hong Kong or Macao (hereinafter referred to as the Employment Permits) for them. Also, the company shall pay the social insurance premiums in light of the Interim Regulations on the Collection and Payment of Social Insurance Premiums for the employees from Taiwan, Hong Kong or Macao.

Our PRC subsidiary hiring persons from Hong Kong, or accepting persons assigned from Hong Kong shall apply for the Employment Permits for the persons from Hong Kong, and sign labour contracts with persons from Hong Kong hired thereby, and pay the social insurance premiums. If our PRC subsidiary fails to register work permits or complete filing and cancellation procedures for employees from Taiwan, Hong Kong or Macao, the competent authorities shall order the related company to rectify within a specified time limit and impose fines.

- (5) According to the Work Safety Law of the PRC (《中華人民共和國安全生產法》), which was promulgated on 29 June 2002 and amended on 27 August 2009 and 31 August 2014, the entities that engage in production and business operation activities within the territory of the PRC shall observe the Work Safety Law and any other relevant laws and regulations concerning work safety, offer education and training programmes to their employees regarding work safety and provide work safety conditions. Any entity that has not been informed of the conditions for safe production may not engage in production and business operation activities. If an entity could not comply with the Work Safety Law and cannot make correction within a time limit, the entity may be fined or ordered to suspend its production or operation for rectification. If a crime is committed, criminal liability is to be legally investigated according to the relevant provisions of the Criminal Law.

Our PRC subsidiary has already promulgated and enforced the management system of work safety and also offered training programme and work safety conditions to its employees.

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8. Laws and Regulations relating to Intellectual Property

Both the PRC Trademark Law (《中華人民共和國商標法》) which was promulgated in 1982 and amended in 1993, 2001 and 2013, and the Implementation Regulation of the PRC Trademark Law (《中華人民共和國商標法實施條例》) which was promulgated in 2002 and amended on 29 April 2014 by the State Council of the PRC give protection to the holders of registered trademarks. The Trademark Office under the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局商標局) handles trademark registrations and grants a term of 10 years to registered trademarks, renewable every 10 years. Trademark licence agreements must be filed with the Trademark Office or its regional counterparts.

According to the PRC Trademark Law, any person who, without the permission of trademark registrants, uses a trademark identical to the registrant's trademark for the same goods, shall compensate the losses suffered by the infringed. Where the case constitutes a crime, the infringer would be prosecuted according to the law for its criminal liabilities.

Our Group has registered the trademarks in the PRC. The trademarks shall be protected by the relevant laws.

9. Laws and Regulations relating to Environmental Protection

- (1) Our PRC subsidiary is subject to the national and local environmental protection laws and regulations, including the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) which was promulgated and came into effect on 26 December 1989, and was amended on 24 April 2014, the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) which was promulgated on 11 May 1984 and amended on 15 May 1996 and 28 February 2008, the Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) which was promulgated on 5 September 1987 and amended on 29 August 1995, 29 April 2000 and 29 August 2015, the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪音污染防治法》) which was promulgated on 29 October 1996 and came into effect on 1 March 1997, the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) which was promulgated on 30 October 1995 and amended on 29 December 2004, 29 June 2013, 24 April 2015 and 7 November 2016, and the Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》) which was promulgated and came into effect on 29 November 1998 and amended on 16 July 2017 as well as the Regulations on the Collection and Use of Sewage Charges (《排污費徵收使用管理條例》) which was promulgated on 2 January and came into effect on 1 July 2003.
- (2) According to the provisions above, a construction unit should, in the phase of construction project feasibility study, submit the construction project environmental impact report or environmental impact registration form for approval. The construction unit shall conduct construction and trial production pursuant to the approval and shall, upon the completion of the construction project, handle the formalities for acceptance checks of the environmental protection facilities. Otherwise, the construction project shall not be put into

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operation or use. If a construction unit fails to submit the environmental impact report, environmental impact report form or environmental impact registration form of construction projects, the competent administration authority of environmental protection shall order it to make up within a prescribed time limit; any constructing unit that commences construction work without making up the formalities within the prescribed time limit is required to cease the construction work and will be charged a fine of less than RMB100,000. If a construction unit violates the laws and fails to install the necessary environmental protection ancillary facilities, fails to carry out the necessary inspection and acceptance procedures or does not pass the inspection and acceptance procedures, the above environmental protection administration authority may order the related construction unit to cease constructing and using the main construction parts which have commenced construction or already in use.

10. Laws and Regulations relating to Construction

According to the Law of the PRC on Urban and Rural Planning (《中華人民共和國城鄉規劃法》) which was promulgated on 28 October 2007 and came into effect on 1 January 2008, and was amended on 24 April 2015 and the Construction Law of the PRC (《中華人民共和國建築法》) which was promulgated on 1 November 1997, came into effect on 1 March 1998, and amended on 22 April 2011, our PRC subsidiary shall apply the Planning Permit for Construction Project and Building Permit for Construction Project before the building to be constructed on the land. If our PRC subsidiary carries out construction work without the Construction Work Planning Permit or violates the provisions of the Construction Work Planning Permit, the competent urban and rural planning administrative department at or above the county level can order the related company to cease construction; if it is still possible to implement remedial measures to eliminate the impact caused by the implementation of the construction plan, the authority shall order the related company to take remedial actions within a prescribed time limit and pay a fine of not less than 5% but not exceeding 10% of the construction cost. If it is not possible to eliminate the impact through remedial measures, the authority shall order the related company to demolish its construction within a prescribed time limit. For construction work that cannot be demolished, the authority may confiscate the illegal construction or any illegal income as well as imposing a fine of not more than 10% of the construction cost.

If our PRC subsidiary commences a project without obtaining the construction work commencement permit or approvals for its construction commencement report, the competent authority shall order the construction entity to take remedial actions, cease the construction operation that does not meet the requirements on commencing construction and impose fines.

LAWS AND REGULATIONS IN HONG KONG

1. Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong Kong)

The Consumer Goods Safety Ordinance (“CGSO”) imposes criminal liability on persons who manufacture, import or supply consumer goods that are unsafe in Hong Kong. Our Group’s products that are sold in Hong Kong, other than toys and certain children’s products within the meaning of the TCPSO (as defined hereinbelow), which are specifically excluded under the schedule to the CGSO, are regulated by the CGSO.

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Sections 4 and 6 of the CGSO require consumer goods to be reasonably safe having regard to all of the circumstances, including (i) the manner in which, and the purposes for which, the consumer goods are presented, promoted or marketed; (ii) the use of any mark in relation to the consumer goods and instructions or warnings for the keeping, use or consumption of the consumer goods; (iii) reasonable safety standards published by a standards institute or similar body for consumer goods of the description which applies to the consumer goods or for matters relating to consumer goods of that description; and (iv) the existence of any reasonable means to make the consumer goods safer.

Under section 28 of the CGSO, a person who commits an offence under the CGSO shall be liable, on first conviction, to a fine of HK\$100,000 and to imprisonment for one year and on subsequent conviction, to a fine of HK\$500,000 and to imprisonment for two years.

2. Consumer Goods Safety Regulation (Chapter 456A of the Laws of Hong Kong)

The Consumer Goods Safety Regulation (“CGSR”) was made under section 30 of the CGSO. Section 2 of the CGSR requires any applicable warning or caution with respect to the safe keeping, use, consumption or disposal of the consumer goods to be legibly marked, in both English and Chinese language in a conspicuous position on the consumer goods, their packaging, labels securely affixed to the consumer goods or their packaging or documents enclosed in the packaging of the consumer goods.

Under section 2(3) of the CGSR, a person who commits an offence under the CGSR shall be liable, on first conviction, to a fine of HK\$100,000 and to imprisonment for one year and on subsequent conviction, to a fine of HK\$500,000 and to imprisonment for two years.

3. Toys and Children’s Products Safety Ordinance (Chapter 424 of the Laws of Hong Kong)

The Toys and Children’s Products Safety Ordinance (“TCPSO”) imposes a statutory duty on manufacturers, importers and suppliers to ensure that all toys and children’s products are reasonably safe, and (wherever applicable) comply with the notices issued by the Commissioner of Customs and Excise. Under the TCPSO, all toys manufactured, imported or supplied for consumption in Hong Kong must comply with one of three sets of toy standards as set out in schedule 1 thereto, while all children’s products as set out in schedule 2 must comply with the applicable requirements as set out in schedule 2 thereto. In addition to the products expressly set out in schedule 2, “children’s products” under the TCPSO also includes products or materials that are intended to facilitate the feeding, hygiene, relaxation, sleep, sucking or teething of a child under four years of age and contains any plasticised materials.

Under the TCPSO, the Commissioner of Customs and Excise has the power to serve a recall notice on a person, requiring the immediate withdrawal and retrieval of any toys or children’s products which he believes to be unsafe and may cause serious injury.

A breach of the TCPSO may result in a maximum fine of HK\$100,000 and one year’s imprisonment on first conviction and a maximum fine of HK\$500,000 and two years’ imprisonment on subsequent conviction.

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4. Toys and Children’s Products Safety (Additional Safety Standards or Requirements) Regulation (Chapter 424C of the Laws of Hong Kong)

The Toys and Children’s Products Safety (Additional Safety Standards or Requirements) Regulation (“**TCPSR**”) imposes three additional safety standards or requirements for toys as set out in part 2 thereto and children’s products as set out in part 3 thereto, which are, namely,

- (1) “identification markings” — sections 5 and 10 of the TCPSR require all toys and children’s products to carry the full name, trademark or other identification mark and the local address of the manufacturer, importer or supplier in English, Chinese or both languages;
- (2) “bilingual warnings or cautions” — sections 6 and 11 of the TCPSR require that, where a toy or children’s product or its packaging is marked with, or where a label affixed to a toy or children’s product or its packaging or a document enclosed in its packaging contains, any warning or caution with respect to its safe keeping, use, consumption or disposal, such warning or caution must be legible and in both English and Chinese; and
- (3) “concentration of phthalates in toys and children’s products” — sections 7 to 9 and 13 to 15 of the TCPSR provide for the control on the concentration limits of six types of phthalates in toys and children’s products.

5. Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong)

The Sale of Goods Ordinance (“**SGO**”) works to protect the rights of consumers regarding the sale and purchase of goods. A contract of sale of goods is defined under section 3(1) of the SGO as a contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for a monetary consideration, called the price. For consumer transactions, certain terms are implied into sales contracts to strengthen protection to consumers. Examples include the implied undertaking that the goods are of merchantable quality, requiring that the goods should be fit for the purpose(s) for which goods of that kind are commonly bought, of such standard of appearance and finish, free from defects (including minor defects), safe, and durable as reasonably expected having regard to the relevant circumstances.

The SGO further provides that:

- (1) under section 15, where there is a contract for the sale of goods by description, there is an implied condition that the goods shall correspond with the description;
- (2) under section 16, where a seller sells goods in the course of a business, there is an implied condition that the goods supplied under the contract are of merchantable quality, except that there is no such condition (i) as regards defects specifically drawn to the buyer’s attention before the contract is made; or (ii) if the buyer examines the goods before the contract is made, as regards defects which examination ought to reveal; or (iii) if the contract is a contract for sale by sample, as regards defects which would have been apparent on a reasonable examination of the sample; and

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- (3) under section 17, where there is a contract for sale by sample, there are implied conditions that (i) the bulk of the goods shall correspond with the sample in quality; (ii) the buyer shall have a reasonable opportunity of comparing the bulk of the goods with the sample; and (iii) the goods shall be free from any defects, rendering them unmerchantable, which would not be apparent on reasonable examination of the sample.

Where any right, duty or liability arises under a contract of sale of goods by implication of law, it may (subject to the Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong)) be negated or varied by express agreement, or by course of dealings between the parties, or by usage if the usage is such as to bind both parties to the contract.

A breach of the implied terms may give rise to a civil action for breach of contract by customer. However, no criminal liability arises from a breach of the implied terms.

6. Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong)

The Trade Descriptions Ordinance (“**TDO**”) prohibits false, misleading or incomplete trade descriptions of goods and services.

Under section 2 of the TDO, trade description means an indication, direct or indirect, and by whatever means given, with respect to the goods or any part of the goods, including, amongst other things, the quantity, method of manufacture, composition, fitness for purpose, strength, performance, compliance with a standard specified or recognised by any person, price, testing by any person and the results thereof and place and date of manufacture of the goods.

Section 7 of the TDO provides that a person commits an offence if he, in the course of any trade or business, applies a false trade description to any goods, supplies or offers to supply any goods to which a false trade description is applied or has in his possession for sale or for any purpose of trade or manufacture any goods to which a false trade description is applied.

Any person who commits an offence under section 7 of the TDO shall be liable, on conviction on indictment, to a fine of HK\$500,000 and to imprisonment for five years and on summary conviction, to a fine of HK\$100,000 and to imprisonment for two years.

7. Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)

The Occupational Safety and Health Ordinance (“**OSHO**”) provides for the safety and health protection of employees in workplaces, both industrial and non-industrial.

Employers must, as far as reasonably practicable, ensure the safety and health in their workplaces by:

- (1) providing and maintaining plant and work systems that do not endanger safety or health;
- (2) making arrangement for ensuring safety and health in connection with the use, handling, storage or transport of plant or substances;

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- (3) providing all necessary information, instruction, training, and supervision for ensuring safety and health;
- (4) providing and maintaining safe access to and egress from workplaces; and
- (5) providing and maintaining a safe and healthy work environment.

Failure to comply with the above provisions constitutes an offence and the employer is liable on conviction to a fine of HK\$200,000. An employer who fails to do so intentionally, knowingly or recklessly commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for six months.

The Commissioner for Labour may also issue (i) an improvement notice against contravention of the OSHO or the Factories and Industrial Undertakings Ordinance (Chapter 59 of the Laws of Hong Kong) requiring an employer to remedy the contravention within a specific period or refrain from continuing or repeating the contravention; or (ii) a suspension notice directing specific activity not to be undertaken, or the premises, plant or substance not to be used, while the notice remains in force. Failure to comply with such notices constitutes an offence punishable by a fine of HK\$200,000 and HK\$500,000 (plus a further fine of HK\$50,000 for each day if contravention is knowingly and intentionally continued), respectively, and imprisonment of up to 12 months.

8. Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong)

Section 7 of the Mandatory Provident Fund Schemes Ordinance (“MPFSO”) requires employers to enrol their employees to become a member of a Mandatory Provident Fund (“MPF”) scheme and section 7A of the MPFSO requires employers and relevant employees to contribute to the MPF scheme. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, an employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of maximum relevant monthly income of HK\$30,000. Contributions to the plan vest immediately.

An employer who fails to comply with section 7 of the MPFSO is liable for a maximum fine of HK\$350,000 and imprisonment for three years. An employer who fails to comply with section 7A of the MPFSO is liable for a maximum fine of HK\$100,000 and imprisonment for six months, and maximum fine of HK\$200,000 and imprisonment for 12 months for each subsequent conviction.

9. Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)

The Employees’ Compensation Ordinance (“ECO”) establishes a no-fault and non-contributory employee compensation system for work injuries and lays down the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases.

Under the ECO, if an employee sustains an injury or dies as a result of an accident arising out of and in the course of his employment, his employer is in general liable to pay compensation even if the employee might have committed acts of faults or negligence when the accident occurred. Similarly, an employee who suffers incapacity or dies resulting from an occupational disease is entitled to receive the same compensation as that payable to employees injured in occupational accidents.

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Pursuant to section 40 of the ECO, employers are required to take out insurance policies to cover their liabilities both under the ECO and at common law for injuries at work in respect of all their employees (including full-time and part-time employees) for an amount not less than the applicable amount specified under the ECO. Currently, the applicable amount is HK\$100 million per event where the number of employees in relation to whom the policy is in force does not exceed 200, and the applicable amount is HK\$200 million per event where the number of employees in relation to whom the policy is in force exceeds 200. An employer who fails to secure the said insurance cover is liable on conviction upon indictment to a maximum fine of HK\$100,000 and imprisonment for up to two years and on summary conviction to a fine of HK\$100,000 and imprisonment for one year.

According to section 15 of the ECO, an employer shall notify the Commissioner of Labour of any accident which results in the death of an employee within three days after the accident by submitting Form 2, not later than seven days after the accident, or 14 days for accident which results in the total or partial incapacity, irrespective of whether the accident gives rise to any liability to pay compensation. If the happening of such accident was not brought to the notice of the employer or did not otherwise come to his knowledge within such periods of seven and 14 days respectively, then such notice shall be given not later than seven days or, as may be appropriate, 14 days, after the happening of the accident was first brought to the notice of the employer or otherwise came to his knowledge.

10. Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong)

The Minimum Wage Ordinance (“MWO”) provides for a prescribed minimum hourly wage rate (currently set at HK\$34.5 per hour) during the wage period for every employee engaged under a contract of employment under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) (“EO”). Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the MWO is void.

Failure to pay minimum wage amounts to a breach of the wage provisions under the EO. An employer who wilfully and without reasonable excuse fails to pay wages to an employee when it becomes due is liable to a fine of HK\$350,000 and imprisonment for three years.

11. Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong)

Every person (a company or individual), carrying on a business in Hong Kong is required by the Business Registration Ordinance to register with the Inland Revenue Department and obtain a business registration certificate within one month of its commencement of the business. Business registration is a process based on application and does not involve government approval. Once the stated criteria are met, a business registration certificate will be granted. Business registration serves to notify the Inland Revenue Department of the establishment of a business in Hong Kong and therefore, designed to facilitate the Inland Revenue Department to collect tax from businesses in Hong Kong.

Any person who fails to apply for business registration or display a valid business registration certificate at the place of business shall be guilty of an offence, and shall be liable to a fine of HK\$5,000 and to imprisonment for one year.

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12. Laws relating to transfer pricing

Section 20(2) of the Inland Revenue Ordinance (Chapter 112 of Laws of Hong Kong) provides that where a non-resident person carries on business with a resident person with whom he is closely connected and the course of such business is so arranged that the profits arising in Hong Kong are less than the ordinary profits which might be expected to arise in or derive from Hong Kong, such business carried out by the non-resident person shall be deemed to be carried on in Hong Kong and be assessable and chargeable with tax in Hong Kong.

LAWS AND REGULATIONS IN US

Jurisdiction Analysis

The application of U.S. law to non-resident entities by courts of law and administrative bodies is limited by legal principles of personal jurisdiction. The two broad jurisdictional concepts that must be considered when analysing whether personal jurisdiction exists are “general” and “specific” jurisdiction. For the court of a forum state to exercise either general or specific jurisdiction over a non-resident defendant, the defendant must have certain contacts with the forum state adequate to establish minimum contacts. General jurisdiction requires a defendant to defend a lawsuit unrelated to its contacts with a forum state if the defendant has had continuous and systematic general business contacts with the state. Alternatively, a court may have specific jurisdiction over a non-resident defendant when that defendant has purposefully directed its activities at residents of that state or consummated a transaction with the forum state or a resident of that state, and the litigation results from alleged injuries that arise out of or relate to those activities. In order to establish the minimum contacts needed to sustain specific jurisdiction, the defendant must “purposefully avail itself” of the privilege of conducting activities within the forum state, thus invoking the benefits and protections of its laws.

Our U.S. Legal Advisers are of the opinion that, based on our Group’s minimal direct contacts with U.S., and that we have no subsidiaries in U.S. or affiliates incorporated in U.S., owns no real property in U.S., has no office or bank accounts in U.S., it is unlikely that our Group could be subject to the general jurisdiction of the courts in U.S.

On the other hand, while our products are indeed sold to consumers in U.S. and therefore placed into U.S. stream of commerce, it does not appear that we intentionally direct or sell any products into any particular U.S. state. Taking together with the fact that we complete all of our transactions in the PRC and do not exercise control over the destinations of any of our products, our U.S. Legal Advisers believe many courts in U.S. under the prevailing case law would conclude that we likely have not purposefully availed ourselves of an U.S. forum for claims arising out of injuries from our Company’s products. Our U.S. Legal Advisers are of the opinion that it is unlikely that a court in U.S. would find the existence of subject matter jurisdiction.

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General Overview of Applicable U.S. Laws and Regulations

1. Consumer Protection, Product Safety and Product Liability Law

In the U.S., there are two separate and distinct areas of law that may apply to product defects or injuries caused by a product: product safety regulations and product liability law. The first is a body of administrative law pertaining to product requirements and rules that are enforced by various government agencies, depending on the product. The second body of law, products liability law, governs litigation of product accidents and injuries in which a plaintiff may be entitled to recover monetary damages. Exposure to U.S. products liability law can be broad and allows consumers to sue a party who designed, manufactured, sold, or supplied an offending product, whether that causes an injury or in some cases where there is a likelihood that a product could cause injury. Exposure to either product safety regulations or products liability law in U.S. is limited by the jurisdictional power of the courts in U.S. and its administrative agencies.

(1) *Product Liability Law*

Products liability law governs private litigation of product accidents. It operates *ex post*, meaning it is a body of rules that governs after a product accident has already occurred. There are four basic theories of recovery when dealing with a product alleged to be defective: strict products liability, negligence, breach of warranty, and tortious misrepresentation. A litigant is not limited to one theory in bringing a lawsuit, but rather can assert any and all theories simultaneously. Further, all four theories have broad application to a vast array of products — including children's apparel.

Strict products liability is generally the most common cause of action asserted in lawsuits involving allegedly defective products. This is because, unlike negligence, strict products liability wrongs do not depend on the degree of carefulness of the defendant. The analysis depends solely on the product and whether it was defective at the time it left the hands of the manufacturer. A product can be defective in its manufacture, that is the product does not conform to design specifications or performance standards, or it deviated in some material ways from otherwise identical units of the same product line. A product can also be defective in its design. A product has a design defect when its design or configuration is what makes it unreasonably dangerous. Finally, a product can be defective because it lacks proper warning or instructions. These are generally called failure to warn claims.

With strict products liability, it is irrelevant whether the manufacturer or supplier exercised all due care in the design, manufacture, or marketing of the product; if there is a defect in the product that causes harm, he or she will be liable for it. Thus, strict product liability is liability without fault for an injury proximately caused by a product that is defective and not reasonably safe.

Negligence actions, on the other hand, require a plaintiff to show that (1) the defendant owed the plaintiff a duty of due care, (2) the defendant breached that duty by furnishing a defective product, and (3) the defendant's breach caused the plaintiff's injury. The analysis focuses on the acts or omissions of the manufacturer of the product. The duty to exercise reasonable care involves every phases of getting the product to the public. For example, not only

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must the product be manufactured with reasonable care, the product must also be designed in a way that is safe when used as intended. The product must be inspected and tested at appropriate stages in the manufacturing, distribution and selling process. The product must be made from appropriate (i.e., safe and non-defective) materials, and assembled with appropriate care to avoid against its negligent manufacture. The product's container or packaging must be adequate (and not in itself dangerous or defective), and contain appropriate warnings and directions for use. An otherwise non-defective product can be made unsafe by the failure to provide adequate instructions for its safe use.

The breach of warranty cause of action is governed by contract law. In the simplest of terms, a warranty is a promise, claim, or representation made about the quality, type, number or performance of a product. In general, the law assumes that a seller always provides some kind of warranty concerning the product he sells and that he should be required to meet the obligation created by the warranty.

For the most part, the law that governs the sale of goods, in general, and warranties, in particular, is uniform from state to state. The law that governs the sale of goods is article 2 of the Uniform Commercial Code (the "UCC"). The UCC has been adopted in every state. Under the UCC, there are two kinds of warranties: express and implied. An express warranty can be created by a representation by the seller, or by showing a sample of a product to the buyer where the buyer reasonably assumed that a second shipment of the same quality as the first would be provided. An implied warranty, on the other hand, is presumed to exist unless the buyer clearly and unambiguously disclaims it in writing as part of the sales agreement.

Finally, tortious misrepresentation is similar to warranty in that it seeks to hold a party liable for misrepresenting a material fact about the product which causes either damage or injury. The rules governing tortious misrepresentation are judge-made and vary from jurisdiction to jurisdiction.

(2) *Product Safety Regulations*

The second body of law is product safety law. The law of product safety is regulatory law and is governed primarily by the Consumer Product Safety Commission ("CPSC"), an administrative agency of U.S. federal government that regulates certain classes of products sold to the public. Children's attire, toys and infant care products fall under its jurisdiction. Product safety law operates *ex ante*, meaning that it seeks to prevent product-caused accidents and diseases before they occur.

The Consumer Product Safety Improvement Act of 2008 ("CPSIA") was passed by the United States Congress in 2008. The CPSIA constituted a significant overhaul of consumer product safety laws in U.S. and was designed to enhance federal and state efforts to improve the safety of all products imported into and distributed in U.S. Products imported into U.S. which fail to comply with CPSIA's requirements are subject to confiscation and the importer and/or distributor in U.S. is subject to civil penalties and fines, as well as possible criminal prosecution. However, while the CPSC works closely with U.S. Customs agents, its jurisdiction does not extend beyond the territorial limits of U.S.

REGULATORY OVERVIEW

Under the CPSIA, a “general conformity certification” is required for any consumer product imported into U.S. that is subject to a consumer product safety rule issued under the Consumer Product Safety Act (“CPSA”), or a similar rule, standard, regulation, or ban issued under the CPSA or under any statute administered by the CPSC. The requirement applies to all manufacturers and importers of goods. Those parties must certify that their products comply with all applicable consumer product safety rules and similar rules, bans, standards, and regulations under any law administered by the CPSC. Such laws include the CPSA, Flammable Fabrics Act, Federal Hazardous Substance Act, and Poison Prevention Act.

The CPSIA specifies that certification must be based on a “test of each product or a reasonable testing program”. The certificate must accompany the product or shipment of products, and a copy must be furnished to each distributor or retailer. The certification must also be furnished to U.S. Customs. And, if requested by the commission, a copy must be furnished to the CPSC. Where there is more than one manufacturer or importer for a product, the party providing the certification should be the importer for imported products.

Children’s Products Safety Standards

The CPSIA made many changes in regulating children’s products, including imposing lower lead-concentration limits on all parts of children’s products, limiting the levels of phthalates in children’s apparel and in certain other child-care articles, and requiring that children’s products be tested before sale. Because of all the new requirements applicable to children’s products, it is critical for importers to understand the definitions for children’s products, apparel, and child-care articles, and whether the products they are producing fall under the definitions.

A “children’s product” is defined as “a consumer product designed or intended primarily for children 12 years or younger”. A “child-care article” is defined as “a consumer product designed or intended by the manufacturer to facilitate sleep or the feeding of children age 3 and younger, or to help such children with sucking or teething”. Thus, by way of example, a bib would facilitate feeding, and a pacifier would facilitate sucking or teething. The terms “children’s toys” and “child-care article” appear to be specific to the phthalate provision in the CPSIA.

As of 12 January 2012, the CPSC began enforcement of the third party testing and certification requirements for an outright ban on certain phthalates, commonly a component of soft plastic items, in toys and child care apparel and sleepwear manufactured after 31 December 2011 and, for the most part, a total lead limit of 100 parts per million in such products.

Choking, aspiration or ingestion hazard

The CPSC classifies any toy or other article intended for use by children under 3 years of age that presents a choking, aspiration, or ingestion hazard because of small parts as a banned hazardous substance.

REGULATORY OVERVIEW

Sharp points hazard

The CPSC requires toys and other articles intended for use by children under the age of eight to pass a test for sharp points.

Sharp edge hazard

The CPSC requires toys and other articles intended for use by children under the age of eight to pass a test for determining whether metal or glass edges on toys and other articles intended for use by children under eight years of age, and such edges exposed in normal use or as a result of reasonably foreseeable damage or abuse of such toys and articles, present a potential risk of injury by laceration or avulsion.

Flammability hazard

The CPSC requires textile fabric or related material in a form or state ready for use in an article of wearing apparel, including garments and costumes finished for consumer use to meet the requirements which such textiles shall meet to be classified, and warns against the use of those textiles which have burning characteristics unsuitable for clothing.

Lead content

Further, the CPSIA regulates the concentration of lead (no more than 0.009 percent) in paint or surface coatings of children's products manufactured after that date. Civil penalties can be as high as US\$8,000 per single violation and US\$15 million for a related series of violations. Proper third party testing and certification for the presence of lead, phthalates or other regulated chemicals requires that manufacturers use a reputable laboratory, experienced with validated testing protocols accepted in U.S.

In addition to general conformity certification and third-party testing for certain issues, the CPSIA mandated tracking labels beginning in August 2009 for those products considered "children's products". Specifically, the CPSIA requires that "the manufacturer of a children's product shall place a permanent, distinguishing mark on the product and its packaging, to the extent practicable, that will enable the manufacturer to ascertain the location and date of production of the product, cohort information (including the batch, run number, or other identifying characteristic), and any other information determined by the manufacturer to facilitate ascertaining the specific source of the product by reference to those marks".

Pursuant to the information our Group has provided, the products our Group sells are subject to regulation by the CPSC and our understanding is that the products are tested for and comply with such regulations including regulations related to lead and phthalate content and sharp edges and small parts.

REGULATORY OVERVIEW

(3) *Product Labeling*

All children's products that are designed or intended primarily for use by children under 12 years of age must bear a permanently affixed mark or label that identifies certain information. These permanent marks or labels may be known as "tracking labels". These labels must include the following information:

1. manufacturer or private labeler name;
2. location and date of production of the product;
3. detailed information on the manufacturing process, such as a batch or run number, or other identifying characteristics; and
4. any other information to facilitate ascertaining the specific source of the product.

Children's products that are designed or intended primarily for use by children who are at least three years of age but no more than six years of age must also bear certain information in the product packaging. This information includes a cautionary statement concerning the presence of any small marble, ball, balloon or other small parts that may be swallowed by a child, as defined in the CPSC regulations. Generally, such statement may state "Warning. Choking Hazard. Contains small parts; not for children under three years." If the small part is a ball, balloon or marble, then the fact that the toy is a small ball, small balloon or small marble, as may be applicable.

2. **Import Tariff and Quota Regulations**

Manufactured goods imported from the PRC are generally subject to U.S. import duties. The PRC is subject to the general rates applicable to most countries with which U.S. does not have a free-trade agreement ("FTA") in place. As of 1 January 2015, U.S. has 14 FTA's in force with 20 countries, but the PRC is not one of them. The rates of duty are set forth in the Harmonized Tariff Schedule of U.S. ("HTS") which identifies applicable duties for the universe of imported goods, organised by class and specific article.

Our Group's products would appear to fall within Chapter 62, heading 6209 "Babies' garments and clothing accessories". According to the current HTS (2012 Revision 2), the general rate for articles under heading 6209 varies. Note that embargoes, anti-dumping duties, countervailing duties, and other very specific matters administered by the U.S. Executive Branch are not contained in the HTS.

There are a number of provisions of U.S. trade law which may allow or result in modification of these duties. They include provisions of general application and China-specific provisions.

REGULATORY OVERVIEW

Sections 201 through 204 of the Trade Act of 1974 provide the authority and procedures for U.S. to take various actions to facilitate a domestic industry's adjustment to import competition. For example, if the U.S. International Trade Commission ("USITC") determines that an article is being imported in such increased quantities as to threaten domestic producers of similar products, U.S. may, among other things, increase or impose a duty, or a tariff-rate quota.

Given the nature of our Group's products – baby clothing and clothing accessories for infants and toddlers – customer base and market position, our U.S. Legal Advisers are of the opinion that it would appear unlikely that importation of these products would threaten domestic production of similar products. Accordingly, application of these provisions would appear to be unlikely.

3. General Taxation

Corporate income tax is imposed at the federal level on all entities treated as corporations by 47 states and the District of Columbia. Certain localities also impose corporate income tax. Corporate income tax is imposed on all domestic corporations and on foreign corporations having income or activities within the jurisdiction.

4. Anti-dumping Laws

There are a range of trade laws in U.S. which address the issue of imports which may injure or threaten U.S. industries. Under the anti-dumping laws in U.S., the USITC conducts investigations into whether dumping or subsidization is occurring in products brought into U.S. market. A significant proportion of such investigations in recent years have been in relation to imports from the PRC.

Whether an item is being dumped or not is assessed on the basis of whether it is being sold at less than fair value in U.S. This means that it is being sold below the producer's sales price in its home market, or at a price which is lower than the cost of production. Subsidisation occurs when a government provides countervailable financial assistance to benefit production, manufacture and/or export of a good. There is first an assessment made by the U.S. Department of Commerce ("**Department of Commerce**") that dumping or subsidisation is occurring, together with a calculation of the estimated margin of dumping or amount of subsidy, and then the USITC is called upon to determine whether or not there is a material injury or threat to U.S. industry. If such a threat is found, the Department of Commerce will issue an antidumping duty and/or countervailing duty order. When such an order is imposed, U.S. Customs and Border Protection is instructed to assess special duties on products subject to the order at the time of their import.

After an order has been issued, there is an automatic "sunset" review, pursuant to the Uruguay Round Agreement Act, approved in late 1994, no later than five years after the order is issued, which is conducted to assess whether a revocation of the order would lead to the continuation or recurrence of dumping or subsidies and of material injury within a reasonably foreseeable time.

REGULATORY OVERVIEW

In addition to anti-dumping and subsidization investigations, there is a special PRC safeguards investigation which may also be conducted by USITC. Under this safeguard law, the Commission determines whether articles from China are being imported into U.S. in such increased quantities or under such conditions as to cause or threaten to cause market disruption to the domestic producers of like or directly competitive products. If the Commission makes an affirmative determination, it proposes a remedy. The Commission sends its report to the President of U.S. and the U.S. Trade Representative. The President of U.S. makes the final remedy decision.

In light of the nature of our Group's products – baby clothing and clothing accessories for infants and toddlers – customer base and market position, our U.S. Legal Advisers are of the opinion that it would appear unlikely that importation of these products would cause or threaten to cause market disruption to the domestic producers of like or directly competitive products. Accordingly, application of these measures would appear to be unlikely.

5. International Anti-Bribery Laws; the Foreign Corrupt Practices Act

The Foreign Corrupt Practices Act (“**FCPA**”) is an U.S. statute that prohibits U.S. companies and individuals (anywhere in the world) from offering, authorizing, promising, directing, or providing anything of value, to any non-U.S. government official, political party, party official, or candidate for foreign political office, for the purpose of influencing the non-U.S. official or party to assist the company in obtaining or retaining business or securing an improper business advantage. Individuals and companies may also be penalised if they order, authorise, or assist someone else to violate the anti-bribery provisions or if they conspire to violate those provisions. The U.S. government also asserts jurisdiction over foreign entities and individuals who take any act in furtherance of a FCPA violation while in the territory of U.S.

The FCPA also contains provisions that regulate the accounting of public companies (those with securities registered in U.S. or that file reports with the Securities and Exchange Commission). These provisions do not appear relevant in this situation.

FCPA Penalties

Under the anti-bribery provisions of the FCPA, any individual who willfully violates the FCPA may be liable for up to US\$16,000 in civil penalties and up to US\$250,000 in criminal fines (or twice the gross gain resulting from the offense, whichever is greater), per each FCPA violation. The individual also may be imprisoned for up to five years, and the FCPA prohibits companies from paying the fines or penalties of their employees. Companies may be liable for civil penalties up to US\$16,000, and criminal fines up to US\$2 million, per each FCPA violation. In addition, an FCPA violation could result in other adverse consequences such as investigations by the U.S. Department of Justice, suspension or debarment from U.S. government contracts, revocation or suspension of export license privileges, shareholder lawsuits, disgorgement, and long-term damage to the company's and individual's reputation.

REGULATORY OVERVIEW

6. Laws Relating to Intellectual Properties

Trademarks law in U.S. is governed by both state and federal law and the main federal statute is the Lanham Act. A trademark includes any word, name, symbol, slogan or device (such as design), or any combination of these, used to identify goods or services and to distinguish them from those manufacture, sold or serviced by others. The remedies for trademark infringement can include injunctions, lost profits and damages.

Patent law in U.S. is governed exclusively by federal law, namely the Patent Act, which secures for inventors an exclusive right to their discoveries. Types of patents recognised under U.S. law include utility patents, design patents and plant patents. A patent is essentially a limited monopoly whereby the patent holder is granted the exclusive right to make, use and sell the patented innovation for a limited period of time.

7. Competition Laws

U.S. has a variety of federal statutes which are designed to promote fair and open competition by prohibiting unfair, restrictive or collusive business practices. These statutes include the Sherman Antitrust Act, the Clayton Act, the Federal Trade Commission Act, and the Robinson-Patman Act. These statutes prohibit, among other things, agreements or arrangements in restraint of trade, unfair or deceptive trade practices and, in certain situations, unfair or discriminatory pricing practices. They may be enforced by the Department of Justice, the Federal Trade Commission and private litigants. In addition, most states have similar statutes which likewise prohibit arrangements in restraint of trade, unfair or deceptive trade practices and unfair or discriminatory pricing practices. These state statutes are enforced by State Attorneys General and other state regulators, as well as private litigants.

LAW AND REGULATIONS IN UK

1. Laws and Regulations relating to Product Quality and Consumer Protection

- (1) Product quality in UK is generally governed by the General Product Safety Regulations 2005 (the “**GPS Regulations**”), which were promulgated on 30 June 2005 and came into force on 1 October 2005. Importers shall be liable for product quality in accordance with the GPS Regulations. The GPS Regulations require products and their packaging to be generally safe. Any applicable warning or caution with respect to the safe-keeping or use of consumer goods must be legibly marked in English in a good position on the consumer goods, their packaging, labels securely affixed to the consumer goods or documents enclosed in the packaging.

Under the GPS Regulations, consumers or other victims who suffer personal injury or property damage due to product defects may claim compensation from the importer as well as the seller. According to the GPS Regulations, the rights and interests of the consumers who buy or use commodities are protected and all importers, sellers and distributors involved must ensure that the products will not cause damage to persons and property.

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Producers also have a legal obligation to withdraw unsafe products from the distribution chain and/or recall them from consumers. Responsible authorities can order product recall if the producer does not do so and impose criminal fines on violators. In case of violations of the GPS Regulations, the responsible authorities have the right to impound and/or destroy goods that are in violation, convict violators of a crime (imposing a fine of up to £20,000 for a serious breach of the general safety requirement or the breach of a safety notice; up to £5,000 for other breaches; and/or imprisonment for up to 12 months for a serious breach of the general safety requirement or the breach of a safety notice and for up to three months for other breaches), order them to suspend the sale or distribution of violating goods. Our Group, in the role of producer and exporter, will in turn be liable to the importer (i.e. its customer) for the loss, compensation or fines.

(2) Other regulations that add more details to the GPS Regulations in specific areas applicable to our goods are:

- the Textile Products (Labelling and Fibre Composition) Regulations 2012 (which came into force on 8 May 2012) regarding indicating the fibre composition of clothing and Regulation (EU) No 1007/2011 of the European Parliament and of the Council of 27 September 2011 (which came into force on 8 May 2012) on textile names for labelling clothing. It is a criminal offence to make a relevant textile product available on the market in UK, in breach of the provisions of the EU Regulation. The penalty is an unlimited fine;
- the Nightwear (Safety) Regulations 1985 - promulgated on 20 December 1985 and came into force on 1 March 1987. A person who commits an offence under the Act is (a) liable on summary conviction to imprisonment for a term not exceeding six months and/or (b) a fine currently not exceeding £5,000;
- European standard BS EN 14878:2007 Textiles - Burning behaviour of children's nightwear - published on 31 July 2007; and
- European Standard for Safety of Children's Clothing - Cords and Drawstrings on Children's Clothing — EN 14682:2014 - published on 31 December 2014.

2. Laws and Regulations relating to Importation and Exportation of Goods

- (1) The responsible authorities can intercept and reject imported goods that do not meet safety standards when they enter the country at the port. Our Group, in the role of producer and exporter, will in turn be liable to the importer (i.e. its customer) for the loss of the goods.
- (2) If the effect of a business' conduct would reach across borders, then the competition laws that apply to it are exclusively European Union competition laws, which are enforced by the European Commission. They have potential extraterritorial effects and might therefore directly affect our Group. These include rules against (a) resale price maintenance (article 102 of the Treaty on the Functioning of the European Union 2007); and (b) cartel activity (under article 101 of the Treaty on the Functioning of the European Union 2007). Very substantial fines can be imposed for anti-competitive behaviour where it affects UK

REGULATORY OVERVIEW

markets or competitors based in UK. These fines are not fixed or capped and can extend into millions of Euros, up to a maximum of 10% of the total worldwide turnover of each of the undertakings participating in the infringement, although there may be a decrease in case of cooperation with the European Commission's investigation, or an increase in case of re-offending. Fines of up to 5% of the average daily turnover may also be levied for every day an undertaking fails to comply with European Commission requirements.

- (3) Intellectual property rights laws in UK protect trademarks and design rights (including unregistered design rights). In the case of violation of these laws, violating goods (i.e. goods classed as counterfeit) can be impounded by the responsible authorities and destroyed. Trademark infringement is also a crime (but not design right infringement) with a fine of up to £50,000 and a prison sentence of up to 10 years can be imposed.

3. Laws and Regulations relating to Taxation

Value-added tax (under the Value Added Tax Act 1994) and import duty can apply to our goods. The importer is liable for these, but we, as exporter, are responsible to the importer for making the correct classification and declarations for them. For sales to at least one of our UK customers, their terms of purchase state that supplies to them by our Group are "delivered duty paid", so we must (a) pay import value-added tax and import duties due on the goods; and (b) obtain UK customs' clearance for the goods. Goods can be impounded until their classification is checked or tax due is paid.

4. Laws and Regulations relating to other areas

- (1) The terms of standard business contracts in UK are governed by the Unfair Contracts Terms Act 1977. Any terms in standard terms must be reasonable. To pass this test, a term must be fair and reasonable having regard to the circumstances which were, or ought reasonably to have been, known to, or in the contemplation of, the parties when the contract was made. If not reasonable, the offending term is invalid.
- (2) The contracts in UK for sale of goods are governed by the Sale of Goods Act 1979 ("SGA") which was promulgated on 6 December 1979 and came into force on 1 January 1980. The SGA implies terms (concerning the seller's having legal title to the goods sold, sale by description, satisfactory quality, fitness for purpose and sale by sample) into contracts where the contracts are silent as to such terms or contravene them. Terms in breach are overridden by the implied terms.
- (3) Corporate manslaughter (corporate homicide) in UK is governed by the Corporate Manslaughter and Corporate Homicide Act 2007 which was promulgated on 26 July 2007 and came into force on 6 April 2008. If an organisation's activities are run so as to (a) cause a person's death; and (b) amount to a gross breach of a relevant duty of care owed by the organisation to the deceased and the way in which its activities are run by its senior management is a substantial element in the breach, then this is an offence. UK importers of our goods are subject to this power to impose unlimited criminal fines on violators and make remedial orders and publicity orders. Our Group, in the role of supplier, will in turn be liable to the importer (i.e. its customer) for the fines if its products cause death.

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- (4) Modern slavery in UK is generally governed by the Modern Slavery Act 2015, which was promulgated and came into force on 26 March 2015. It is not directly applicable in countries outside UK. From 29 October 2015, UK companies caught by the law (turnover above £36 million) must publish an annual statement to (a) note steps taken so slavery and human trafficking don't take place in the business (or in its supply chain); or (b) declare that no such steps have been taken. At least one of our UK customers is caught by this. An audit of their supply chains may be held to check that they comply with UK anti-slavery laws.
- (5) The Bribery Act 2010 bans bribery and claims a near-universal jurisdiction, so an individual or a company with links to UK could be prosecuted if a crime occurred outside UK. It criminalises bribery, being bribed and the failure of a business to prevent bribery on its behalf. If an individual is found guilty of a bribery offence, he may be imprisoned for up to 10 years' imprisonment and an unlimited fine and a confiscation order made under the Proceeds of Crime Act 2002. At least one of our UK customers has an anti-bribery policy, with which our Group must comply.

PRODUCT SAFETY MEASURES FOR SALES OF PRODUCTS TO US AND UK

Prior to the delivery of our products to our OEM customers in US and UK, we cooperate with them for various tests with a view to ascertaining compliance with product safety regulations. Customers, through their representatives or independent third-party testing and certification companies, such as Société Générale de Surveillance (or more commonly known as "SGS"), conduct laboratory testings such as testings on strength, dimensional stability to wash and dry-cleaning, pH value of acidity and alkalinity, formaldehyde level, lead level and flammability on representative samples of all products manufactured by our Group according to the respective customers' requirements which cover the applicable regulatory requirements at our costs. The testing and certification companies furnish test reports in connection with imports into US and UK directly to our customers. Our Directors confirmed that our Group will then deliver the products to US or UK upon receipt of our customers' indication that our products are up to the requested standards.

LAWS AND REGULATIONS IN MACAO

Our Group sells baby products to a wholesale customer in Macao during the Track Record Period.

Products Safety and Liability

Regarding products safety in Macao, it is regulated by the Administrative Regulation No. 17/2008 "General Product Safety Regulations".

The aforementioned Administrative Regulation shall apply to all the products save and except food products, real estate, airplanes, boats or vehicles, products in transit, at border crossing or for exports, products used (for example, antiques or goods traded on the second hand market) and products for which there are already specific safety provisions.

REGULATORY OVERVIEW

According to the laws, only safe products shall be placed on the market and our Group, which shall be considered as producer, is also obliged to: (i) provide the consumer with all necessary and relevant information in an official language of Macao that enables the consumer to assess and prevent the risks inherent in the use of a product, provided that they are not immediately noticeable without proper warning; (ii) take appropriate measures, depending on the characteristics of the product supplied, and keep the consumer informed of the risks that the product may present; (iii) take appropriate action to prevent the risks arising from the product, including, where appropriate, withdrawal from the market; and (iv) provide a sample of the product to be subjected to the safety test, whenever this is requested by the competent authority.

The manufacture, import or supply or placing on the market of dangerous products may be prohibited or withdrawn from the market and possible destruction by the order of the Macao government and the producers and the distributors shall bear the costs relating to such operations. Failure of such and other obligations under the said laws will result in administrative fines to be imposed on the producers and the distributors.

In relation to the products liability, pursuant to the Commercial Code of Macao which states that, “A producer commercial entrepreneur is liable, regardless of fault, for damage caused to third parties by the defects of products that he puts in circulation” and our Group could be considered as a “producer commercial entrepreneur” as a “producer” includes “anyone who, in the exercise of his enterprise, imports products for sale, lease, financial lease or another form of distribution”. A product is considered “defective” if, “at the moment of its entry into circulation, it does not offer the safety that legitimately is to be expected”. The customer shall have a right to claim for compensation resulting from the defective products provided that such defective products are “normally destined to private use or consumption and that the injured party has mainly given them such destination”.

In conclusion, our Group, being a producer commercial entrepreneur, is liable to any product liability claims in case of selling defective products in Macao.

According to the articles no. 85 to no. 94 of Commercial Code of Macao and under the Civil Code of Macao, in the event that any product circulated by our Group is considered defective, which causes damage to third parties, our Group shall be subject to the civil compensation liability joint and several, including the damage resulting from death or personal injury, as well as damage to goods other than the defective product, provided that these are normally destined to private use or consumption and that the injured party has mainly given them such destination.

In internal relations, the circumstances shall be taken into account, in particular the risk created by each liable party, the seriousness of the fault with which they have eventually acted and their contribution to the damage. In case of doubt, the distribution of responsibility shall be in equal parts.

COMPLIANCE WITH LAWS AND REGULATIONS IN DIFFERENT JURISDICTIONS

Save as otherwise disclosed in the section headed “Business — Non-compliance with the Construction Law of the PRC and Construction Quality Management Regulations of the PRC” in this prospectus, our Directors confirm that our Group had been in compliance with all relevant laws and regulations in, among others, the PRC, Hong Kong, US, UK and Macao pertaining to our business operations in all material aspects during the Track Record Period and up to the Latest Practicable Date.

HISTORY, DEVELOPMENT AND REORGANISATION

HISTORY AND DEVELOPMENT

Overview

In 1974, Mr. Fung established Mansion Manufacturing Co., an entity that operated a manufacturing factory of baby garments in Hong Kong. In 1988, Mansion Manufacturing Co. moved its manufacturing factory from Hong Kong to Huangpu County, Zhongshan City, Guangdong Province, the PRC, which was a milestone of Mr. Fung's first establishment in the PRC. In 2002, Mansion Manufacturing Co. ceased to have any business operation and was deregistered. Mr. Fung is the late father of Ms. Fung, our executive Director, the chairlady of our Board and our chief executive officer.

The history of our Group can be traced back to 1993. In 1993, Mr. Fung, together with a PRC business partner, established Mei Li Hua as a sino-foreign joint venture, in which Mr. Fung indirectly held 60%.

In 1994, we incorporated Mantex Supplies, which is the trading business arm of our OEM business that sells baby clothing and clothing accessories of infants and toddlers to overseas brand owners or their designated sourcing companies.

In 1996, we acquired a land parcel in Huangpu County, Zhongshan City, Guangdong Province, the PRC for the purpose of building the Huangpu Factory.

In 1997, we relocated our entire manufacturing facilities to the Huangpu Factory.

In 1998, we established Martex International in the course of transforming Mei Li Hua from a sino-foreign joint venture to a wholly foreign-owned enterprise.

In 2003, as part of Mr. Fung's family arrangements, Ms. Fung acquired from Mr. Fung the entire interests of Mei Li Hua, Mantex Supplies and Martex International, being our manufacturing and trading business arms by using her own funds.

Given the experience in our OEM business, Ms. Fung established Babies Trendyland and Mi'Des Associated and commenced our retail business that sold our OBM products in Hong Kong in 2004. We launched our first department store counter in 2004. We further opened our first self-operated retail store in Hong Kong and registered the trademark "mides" in 2009. Since the establishment of our own brand, we have stood by our core values of "mides" as follows:

"M" for "made for babies";
"I" for "indivisible and united as one";
"D" for "dedicated to the community and its people";
"E" for "excellent quality"; and
"S" for "service from the heart".

We strive to accomplish our mission of *"with love & commitment"* and vision of *"your baby, our vision"*.

HISTORY, DEVELOPMENT AND REORGANISATION

In 2015, Ms. Fung, through Mansion Success, integrated our manufacturing, trading and retail sales businesses for better management and rationalising our group structure. Since then and immediately before the Reorganisation, Mansion Success was the common direct holding company of Mi'Des Associated, Babies Trendyland, Mantex Supplies, and Martex International which was the direct holding company of Mei Li Hua.

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 17 May 2017 and, as part of the Reorganisation, became the holding company of our Group. During the Track Record Period, our Group's business was conducted through our Group's four principal operating subsidiaries, namely Martex International, Babies Trendyland, Mei Li Hua and Mantex Supplies.

Throughout our history of over 20 years, we have prided ourselves on our product quality and safety, which is the uttermost importance of baby clothing products that our customers emphasise on. Regarding our OEM business, our five largest customers for FY2016 and FY2017 confirmed that we were one of their major suppliers in the PRC. Regarding our OBM business, as at the Latest Practicable Date, we had 10 self-operated retail stores and 12 department store counters in Hong Kong. We have also entered into wholesale agreements with our customers in the PRC and Macao to sell our OBM products, with the intention to gain experience and test customers' acceptance to our products in those regions.

Set out below are our key business milestones:

Milestones

Year	Event
1993	Mr. Fung, together with a PRC business partner, an independent third party, established Mei Li Hua
1994	We commenced our OEM business through the incorporation of Mantex Supplies. We entered into business relationship with Impact Imports
1997	We started selling our OEM products to Gerber, a leading baby product seller headquartered in US We relocated our entire manufacturing facilities to the Huangpu Factory
2003	We leased a land parcel adjacent to the Huangpu Factory and constructed the Ancillary Facilities
2004	We commenced our OBM business through the incorporation of Babies Trendyland and launched our first department store counter in Hong Kong
2006	We started selling our OEM products to Next, a clothing sourcing company in Hong Kong which is a subsidiary of a public company listed on the London Stock Exchange plc.

HISTORY, DEVELOPMENT AND REORGANISATION

Year	Event
2007	We started selling our OEM products to Acorn, a clothing sourcing company in Hong Kong
2009	We started selling our OEM products to Mamas & Papas, a leading baby product seller headquartered in UK We registered the trademark “mides” in Hong Kong
2010	We started selling our OBM products to our wholesale customer in Macao who sells our products through its retail store
2015	To cope with changes in the retail market in the PRC, we co-operated with a PRC wholesale customer who sells our products on a virtual online store “tmall.com” and through its retail store in the PRC

Details of our licences and awards are set out in the section headed “Business — Awards and certifications” in this prospectus.

ESTABLISHMENT AND DEVELOPMENT OF OUR SUBSIDIARIES

Mei Li Hua

Martex Trading Co., (Hong Kong) (香港萬達時洋行), a sole-proprietorship owned by Mr. Fung, and Zhong Shan Huang Pu, an independent third party, established Mei Li Hua under the laws of the PRC on 23 March 1993. Zhong Shan Huang Pu was a collective enterprise (集體企業). Accordingly, at the time of establishment, Mei Li Hua was a sino-foreign joint venture, which had a registered capital of HK\$4,000,000. Zhong Shan Huang Pu contributed the rights of use of a factory, a warehouse and the affiliated facilities (the “**Facilities**”), which were, after discount, equivalent to HK\$1,600,000, representing 40% equity interest in Mei Li Hua. Martex Trading Co., (Hong Kong) contributed banking facilities and cash in an aggregate amount of HK\$2,400,000, representing 60% equity interest in Mei Li Hua. Mei Li Hua currently operates the Huangpu Factory and the Ancillary Facilities and is our manufacturing business arm of baby clothing and clothing accessories of infants and toddlers.

On 30 June 1995, Mei Li Hua increased its registered capital from HK\$4,000,000 to HK\$14,000,000, with the additional new registered capital of HK\$10,000,000 contributed by Zhong Shan Huang Pu and Martex Trading Co., (Hong Kong) according to their respective shareholding interests in Mei Li Hua. Accordingly, Zhong Shan Huang Pu contributed HK\$4,000,000 in cash and Martex Trading Co., (Hong Kong) contributed HK\$6,000,000, partly in cash and partly by facilities.

On 12 May 1999, Martex Trading Co., (Hong Kong) and Zhong Shan Huang Pu transferred their respective equity interest of 60% and 40% in Mei Li Hua to Martex International, which was then held as to 95% and 5% by Mr. Fung and Ms. Fung, respectively. Martex International acquired the 60% equity interest of Mei Li Hua held by Martex Trading Co., (Hong Kong), a sole-proprietorship owned by Mr. Fung, at nil consideration on the basis that it was a transfer between two companies controlled by Mr. Fung as part of the restructuring to transform Mei Li Hua from a sino-foreign joint venture to a wholly foreign-owned enterprise. For the 40% equity interest of Mei Li Hua held by Zhong Shan

HISTORY, DEVELOPMENT AND REORGANISATION

Huang Pu, it received a consideration of HK\$5,600,000 which was determined with reference to (a) the total contribution made by Zhong Shan Huang Pu that was the aggregate of its initial contribution at the time of establishment of Mei Li Hua and its subsequent contribution made for the purpose of increasing Mei Li Hua's registered capital, and (b) the then NAV of Mei Li Hua, and which was satisfied by (i) the return of the Facilities at its then value in 1993 at HK\$1,600,000; (ii) payment of cash of HK\$1,779,055, which was the value of part of the Huangpu Factory that was initially agreed to be alienated and transferred to Zhong Shan Huang Pu; and (iii) payment of cash of HK\$2,220,945 for settlement of the remaining consideration.

Since then, Mei Li Hua has been a wholly foreign-owned enterprise (外商獨資企業) held by Martex International.

Mantex Supplies

On 21 July 1994, we incorporated Mantex Supplies in Hong Kong with limited liability. On the same date, Mantex Supplies allotted and issued one share, representing 25% of the issued share capital of Mantex Supplies, each to Ms. Fung and her family members, namely Ms. Fung Sau Ling, Ms. Fung Sau Man and Ms. Fung Ka Yi, Vicky at nominal value of HK\$1 each. It is our trading business arm of baby clothing and clothing accessories of infants and toddlers to overseas brand owners or their designated sourcing companies.

On 2 December 1994, Mantex Supplies allotted and issued 149,999 shares to each of Ms. Fung and Ms. Fung Sau Ling, Ms. Fung Sau Man and Ms. Fung Ka Yi, Vicky at nominal value of HK\$1.

On 21 July 1997, Mr. Fung acquired 90,000 shares of Mantex Supplies from each of Ms. Fung, Ms. Fung Sau Ling, Ms. Fung Sau Man and Ms. Fung Ka Yi, Vicky at nominal value of HK\$1, resulting in the following shareholding structure of Mantex Supplies:

Name of shareholder	Issued shares held	Shareholding %
Mr. Fung	360,000	60%
Ms. Fung	60,000	10%
Ms. Fung Sau Ling	60,000	10%
Ms. Fung Sau Man	60,000	10%
Ms. Fung Ka Yi, Vicky	60,000	10%

As part of Mr. Fung's family arrangement, there had been further changes in the shareholding structure of Mantex Supplies. Immediately before Ms. Fung took over Mantex Supplies on 26 March 2003, 599,999 shares and one share in, representing approximately 99.99983% and 0.00017% of the issued share capital of, Mantex Supplies were held by Mr. Fung and Ms. Fung, respectively. On 26 March 2003, Mr. Fung, as part of his family arrangement, transferred his entire interests in, being 599,999 shares, representing approximately 99.99983% of the issued share capital of, Mantex Supplies to Mansion Global Enterprise Limited, a company wholly owned by Ms. Fung, at a consideration of HK\$9,105,884.69, which was determined with reference to the then approximate aggregate value of the properties owned by Mantex Supplies and which was settled by using Ms. Fung's own funds.

HISTORY, DEVELOPMENT AND REORGANISATION

On 30 March 2015, as part of our Group's restructuring, Mansion Success acquired 599,999 shares and one share in, representing approximately 99.99983% and 0.00017% of the issued share capital of, Mantex Supplies from Mansion Global Enterprise Limited and Ms. Fung, respectively, each at nominal value of HK\$1. Since then, Mantex Supplies has been a wholly-owned subsidiary of Mansion Success.

Martex International

On 14 January 1998, we incorporated Martex International in Hong Kong with limited liability. On the same date, Martex International allotted and issued one share in, representing 50% of the issued share capital of, Martex International, each to Mr. Fung and Ms. Fung at the subscription price of HK\$10,000 per share. Martex International is the investment holding company of Mei Li Hua.

On 18 February 1998, Martex International allotted and issued 94 shares and four shares in, representing 94% and 4% of the enlarged issued share capital of, Martex International to Mr. Fung and Ms. Fung, respectively, at the subscription price of HK\$10,000 per share.

On 10 March 2003, Mr. Fung acquired four shares in, representing 4% of the issued share capital of Martex International, from Ms. Fung at nil consideration as part of their family arrangement.

On 26 March 2003, as part of Mr. Fung's family arrangement, Mr. Fung transferred all his interests, being 99 shares in, representing 99% of the issued share capital of, Martex International to Mansion Global Enterprise Limited, which was wholly owned by Ms. Fung, at a consideration of HK\$922,642, which was determined with reference to the NAV of Martex International at the time of transfer and which was settled by using Ms. Fung's own funds.

On 27 March 2015, as part of our Group's restructuring, Martex International allotted and issued 9,900 shares in, representing 99% of the enlarged issued share capital of, Martex International to Mansion Success at a subscription price of HK\$1 per share.

On 30 March 2015, Ms. Fung and Mansion Global Enterprise Limited transferred one and 99 shares, respectively in, representing 0.01% and 0.99% of the issued share capital of, Martex International to Mansion Success, which was wholly owned by Ms. Fung, each at nominal consideration of HK\$1, respectively. Since then, Martex International has been wholly owned by Mansion Success.

Mi'Des Associated

On 7 June 2004, Mi'Des Associated was incorporated in the BVI with limited liability. Mi'Des Associated holds certain trademarks for the operation of our Group's business.

HISTORY, DEVELOPMENT AND REORGANISATION

On 10 June 2004, Mi'Des Associated allotted and issued one share in, representing 50% of the issued share capital of, Mi'Des Associated each to Ms. Fung and Ms. Luk (as trustee for the benefit of Ms. Fung).

On 30 March 2015, Mansion Success acquired one share in, representing 50% of the issued share capital of, Mi'Des Associated each from Ms. Fung and Ms. Luk at a nominal consideration of HK\$1 each. Since then and immediately before the Reorganisation, Mi'Des Associated had been a wholly-owned subsidiary of Mansion Success.

Babies Trendyland

On 8 June 2004, Babies Trendyland was incorporated in Hong Kong with limited liability. Babies Trendyland operates our self-operated retail stores and department store counters in Hong Kong and sells our products to our wholesale customers in the PRC and Macao.

On 17 June 2004, Ms. Fung acquired one share in, representing the entire issued share capital of, Babies Trendyland from the subscriber at nominal consideration of HK\$1. On the same date, three shares, four shares and two shares in, representing 30%, 40% and 20% of the enlarged issued share capital of, Babies Trendyland were allotted and issued to Ms. Fung, Ms. Luk (as trustee for the benefit of Ms. Fung) and Ms. Luk Hok Ching Ophelia who was an employee of Babies Trendyland (as trustee for the benefit of Ms. Fung), respectively.

On 22 May 2008, Ms. Luk Hok Ching Ophelia transferred her two shares in, representing 20% of the issued share capital of, Babies Trendyland to Ms. Luk (as trustee for the benefit of Ms. Fung) at nil consideration.

On 27 March 2015, Babies Trendyland allotted and issued 999,990 shares in, representing 99.999% of the enlarged issued share capital, of Babies Trendyland, to Mansion Success at HK\$999,990, with reference to the then par value of the shares of Babies Trendyland. Shortly after the allotment and issue of shares, on 30 March 2015, Mansion Success acquired from each of Ms. Fung and Ms. Luk four shares and six shares in Babies Trendyland, respectively, each at nominal value of HK\$1. Since then and immediately before the Reorganisation, the shareholding structure of Babies Trendyland had remained unchanged.

Mansion Success

On 13 February 2015, Ms. Fung incorporated Mansion Success in the BVI with limited liability and 1,000 shares in, representing the entire issued share capital of, Mansion Success, was allotted and issued to Ms. Fung. Mansion Success is an intermediate holding company of our Group.

Since then and immediately before the Reorganisation, Mansion Success had been wholly owned by Ms. Fung.

HISTORY, DEVELOPMENT AND REORGANISATION

DEREGISTRATION OF COMPANIES DURING THE TRACK RECORD PERIOD

Ying Huang and Min Bo

On 3 June 2011, Babies Trendyland established Ying Huang under the laws of the PRC with limited liability. It operated general retail sales business of baby clothing and clothing accessories of infants and toddlers by way of trading in the PRC during the period from June 2011 to October 2015.

For the years ended 31 December 2011, 31 December 2012, 31 December 2013 and 31 December 2014, Ying Huang recorded revenue of approximately RMB3.6 million, RMB2.6 million, RMB1.7 million and RMB0.2 million respectively, with corresponding net loss of approximately RMB0.3 million, net profit of approximately RMB0.2 million, net profit of approximately RMB78,600 and net loss of approximately RMB0.4 million respectively. Ying Huang sold third party's brand products in the PRC and did not trade or sell "mídes" products.

On 7 November 2012, Mantex Supplies established Min Bo under the laws of the PRC with limited liability. It operated trading business of baby clothing and clothing accessories of infants and toddlers in the PRC during the period from November 2012 to December 2015. The revenue of Min Bo for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 was approximately RMB0.6 million, RMB0.6 million and RMB0.5 million respectively, with the corresponding net profit of approximately RMB1,700, RMB20,200 and net loss of approximately RMB95,800 respectively. Min Bo did not trade any "mídes" products.

In late 2015, our Directors, having taken into account the poor financial performance and the scale of operation of Ying Huang and Min Bo, the cost effectiveness of managing and maintaining such retail and trading businesses in the PRC and the overall structure of our Group, considered that it was in the best interest of our Group to cease the businesses of Ying Huang and Min Bo. Ying Huang and Min Bo were then deregistered on 23 March 2016 and 14 March 2016, respectively. Our Directors consider the losses incurred by Ying Huang and Min Bo had no material adverse impact on our Group's operation during the Track Record Period.

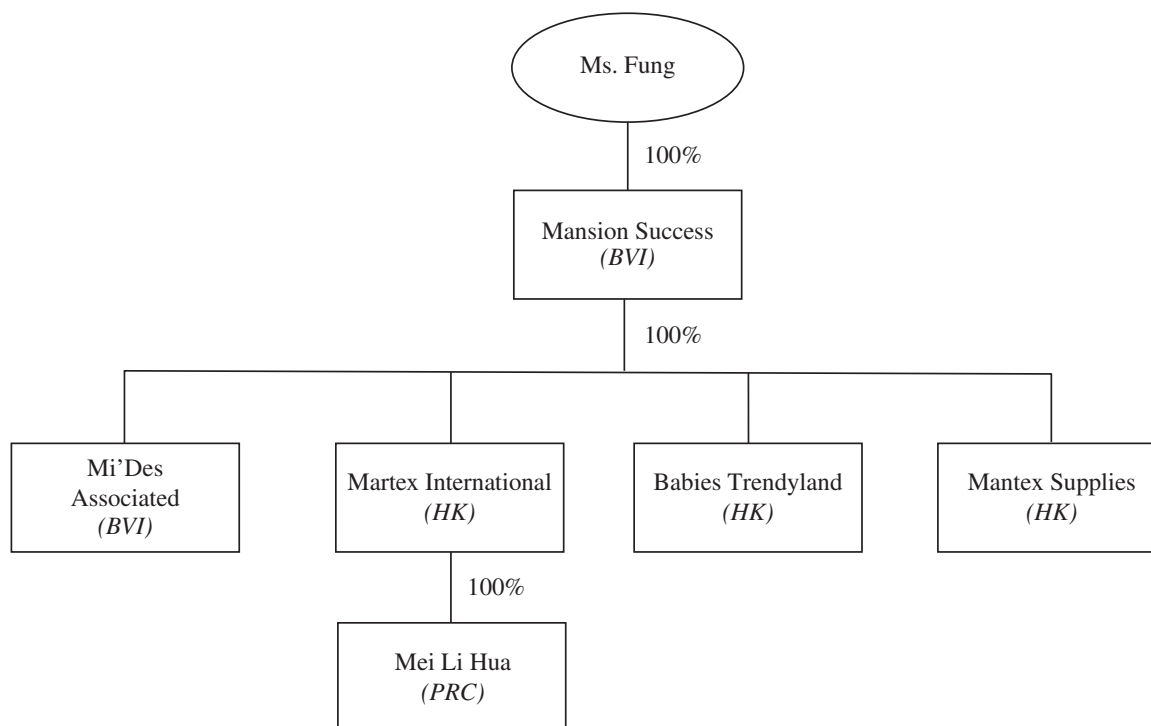
Both Ying Huang and Min Bo had complied with all applicable laws and regulations in the PRC in all material aspects, and were not involved in any claims, litigation or legal proceedings, whether actual or threatened, prior to their respective deregistration. As advised by our PRC Legal Advisers, Ying Huang and Min Bo have already completed the whole deregistration process with the relevant Administration for Industry and Commerce, and that there is no outstanding claims, litigation or legal proceedings.

HISTORY, DEVELOPMENT AND REORGANISATION

REORGANISATION

For the purpose of the Listing, we underwent the Reorganisation as a result of which our Company became the holding company of our Group.

Immediately before the Reorganisation, the corporate structure of our Group was as follows:



The Reorganisation involved the following steps:

Stage (1) — Incorporation of Joyful Cat

On 16 May 2017, Ms. Fung incorporated Joyful Cat in the BVI. Ms. Fung is also the sole director of Joyful Cat.

Joyful Cat is authorised to issue a maximum of 50,000 shares with a par value of HK\$1 each. Joyful Cat allotted and issued one share in, representing the entire issued share capital of, Joyful Cat to Ms. Fung.

Stage (2) — Incorporation of our Company

Our Company was incorporated on 17 May 2017 in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each. Our Company allotted and issued one Share in, representing the entire issued share capital of, our Company to the initial subscriber pursuant to the Memorandum and the Articles, which was subsequently transferred to Joyful Cat on the same date.

HISTORY, DEVELOPMENT AND REORGANISATION

Stage (3) — Incorporation of LFC Partners

On 22 May 2017, our Company incorporated LFC Partners in the BVI with Ms. Fung being the sole director of LFC Partners.

LFC Partners is authorised to issue a maximum of 50,000 shares with a par value of HK\$1 each. LFC Partners allotted and issued one share in, representing the entire issued share capital of, LFC Partners to our Company.

Stage (4) — Acquisition of Mansion Success by our Company

On 23 June 2017, Ms. Fung as vendor and our Company as purchaser entered into an agreement for sale and purchase, pursuant to which our Company acquired 1,000 shares in, representing the entire issued share capital of, Mansion Success from Ms. Fung at the consideration of HK\$1 (the “**Acquisition**”).

Ms. Fung and our Company agreed to settle the consideration for the Acquisition by our Company allotting and issuing 100 new Shares, credited as fully paid, to Joyful Cat.

Stage (5) — Transfer of shares in Mi’Des Associated and Babies Trendyland to LFC Partners

On 30 June 2017, Mansion Success and LFC Partners entered into an instrument of transfer, pursuant to which Mansion Success transferred to LFC Partners two shares in, representing the entire issued share capital of, Mi’Des Associated at HK\$1.

On 30 June 2017, Mansion Success and LFC Partners entered into an instrument of transfer and bought and sold notes, pursuant to which Mansion Success transferred to LFC Partners 1,000,000 shares in, representing the entire issued share capital of, Babies Trendyland at HK\$1.

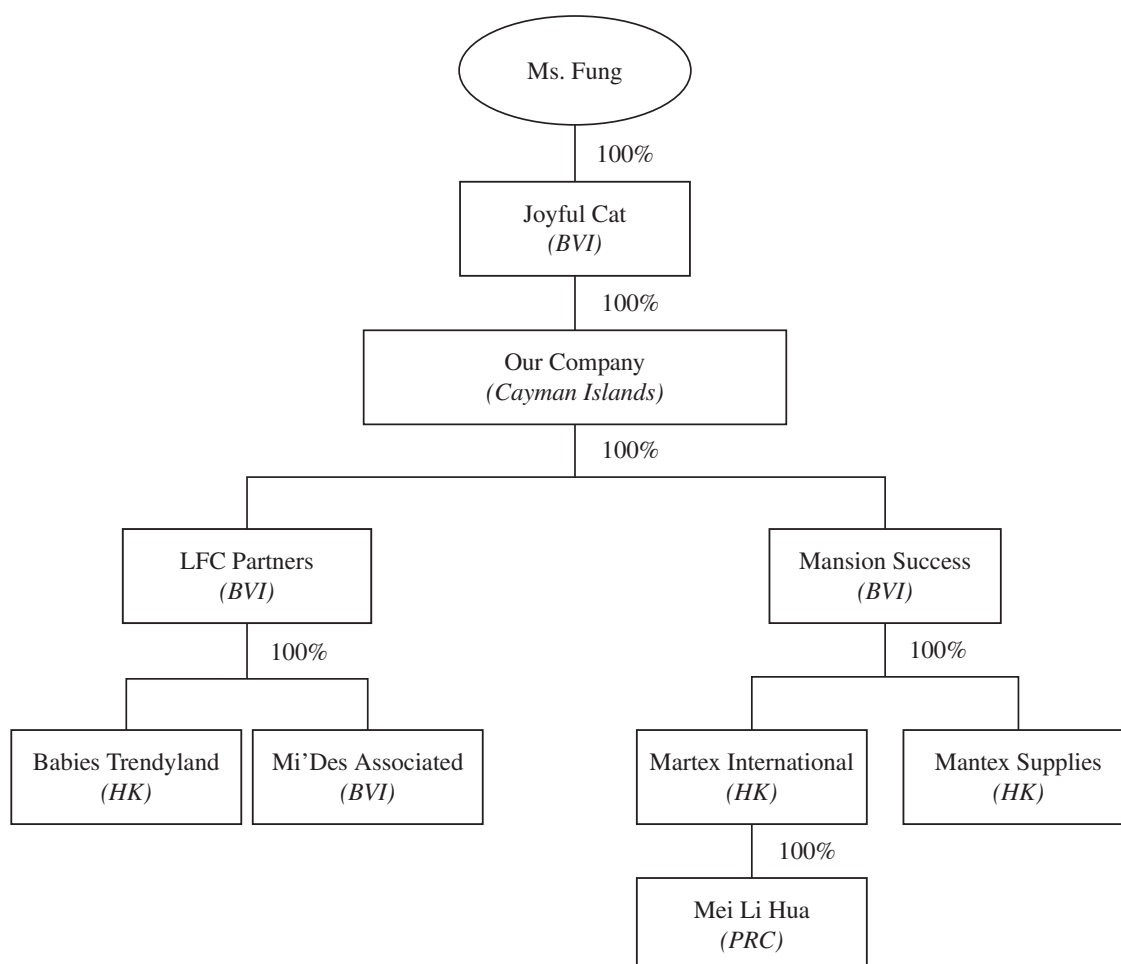
Upon completion of the above share transfers, each of Mi’Des Associated and Babies Trendyland is wholly owned by LFC Partners.

HISTORY, DEVELOPMENT AND REORGANISATION

Stage (6) — Increase in the authorised share capital of our Company

On 28 December 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 of par value of HK\$0.01 each by the creation of an additional of 1,962,000,000 Shares.

Immediately after completion of the Reorganisation as described in the above steps, the corporate structure of our Group was as follow:



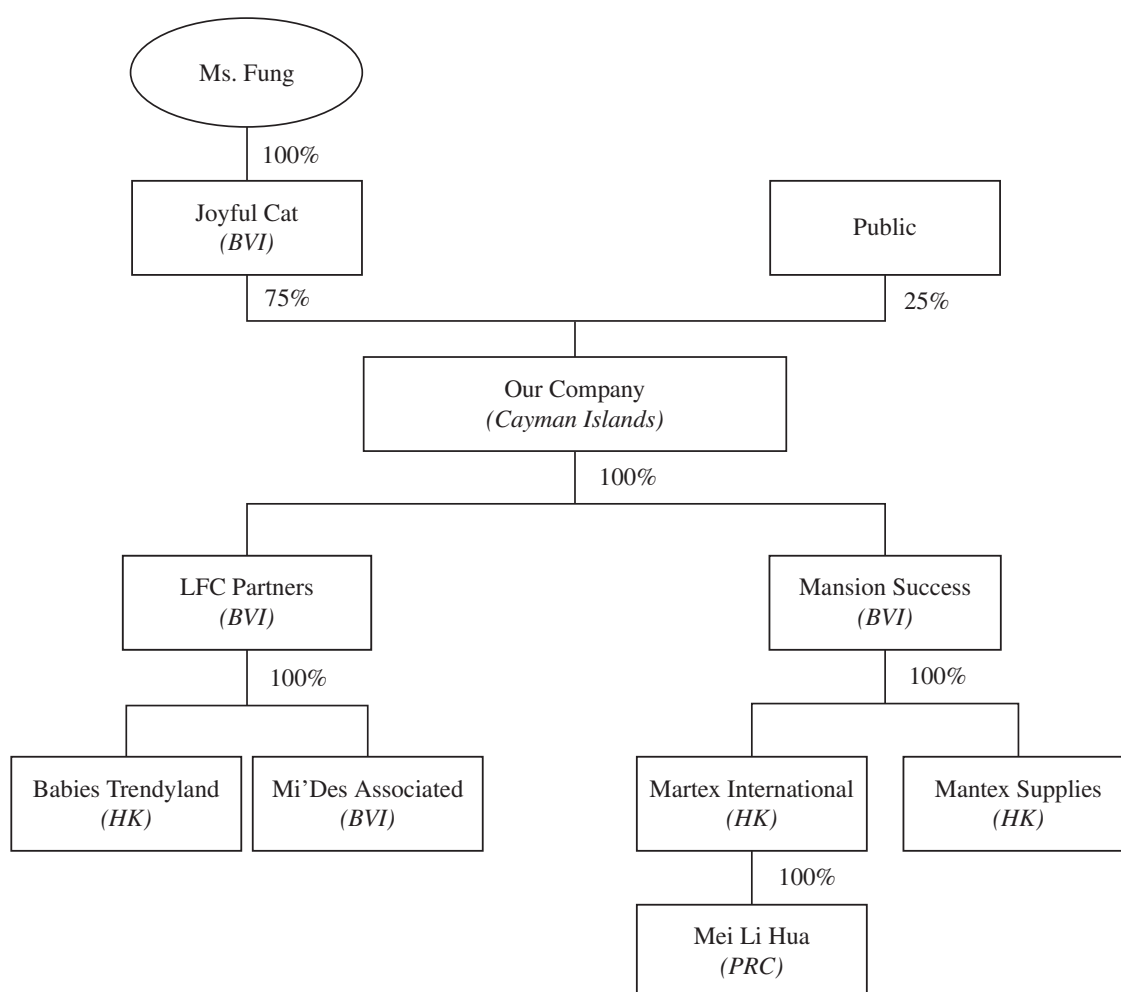
HISTORY, DEVELOPMENT AND REORGANISATION

THE SHARE OFFER AND THE CAPITALISATION ISSUE

Our Company will offer 100,000,000 Offer Shares, comprising 10,000,000 Public Offer Shares for subscription by way of Public Offer and 90,000,000 Placing Shares for subscription by way of Placing.

Conditional upon the share premium account of our Company being credited as a result of the issue of the Offer Shares, our Directors are authorised to capitalise the amount of HK\$2,999,998.99 from the share premium account of our Company by applying such sum towards the paying up in full at par a total of 299,999,899 Shares for the allotment and issue to Joyful Cat.

The following diagram illustrates the shareholding and corporate structure of our Group immediately following the completion of the Share Offer and the Capitalisation Issue, and assuming no option which may be granted under the Share Option Scheme and the Offer Size Adjustment Option is exercised:



BUSINESS

OVERVIEW

We specialise in the manufacture and sale of baby clothing and clothing accessories for infants and toddlers. We sell these baby fabric products through (i) our OEM business directly to the overseas brand companies or designated sourcing companies mainly located in Hong Kong, UK and US; and (ii) our OBM business, under our own brand “mides” and complementary third party brand products through our self-operated retail stores and department store counters in Hong Kong, and wholesale in Hong Kong, the PRC and Macao.

For FY2016, FY2017 and SP2017, our OEM business has generated approximately 80.4%, 76.3% and 77.1% of our total revenue, respectively. The following table sets forth a breakdown of our revenue and gross profit by business segments during the Track Record Period:

	FY2016		FY2017		SP2016		SP2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
OEM business	329,428	80.4	256,091	76.3	129,969	82.2	92,269	77.1
OBM business								
- Self-operated retail stores	36,852	9.0	36,194	10.8	12,769	8.1	13,500	11.3
- Department store counters	40,370	9.8	38,758	11.5	13,659	8.7	12,566	10.5
- Wholesale	3,115	0.8	4,767	1.4	1,630	1.0	1,328	1.1
OBM sub-total	80,337	19.6	79,719	23.7	28,058	17.8	27,394	22.9
Total	409,765	100	335,810	100	158,027	100	119,663	100

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	FY2016		FY2017		SP2016		SP2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
OEM business	67,035	20.3	67,189	26.2	32,376	24.9	28,110	30.5
OBM business								
- Self-operated retail stores	29,300	79.5	25,809	71.3	9,553	74.8	11,272	83.5
- Department store counters	33,259	82.4	31,684	81.7	11,902	87.1	10,811	86.0
- Wholesale	1,426	45.8	1,417	29.7	436	26.8	400	30.1
OBM sub-total	63,985	79.6	58,910	73.9	21,891	78.0	22,483	82.1
Total	<u>131,020</u>	<u>32.0</u>	<u>126,099</u>	<u>37.6</u>	<u>54,267</u>	<u>34.3</u>	<u>50,593</u>	<u>42.3</u>

During the Track Record Period, we experienced a decrease in our revenue. Our Directors believe that this was mainly due to reduced sales orders placed by our two largest customers for FY2016, Next in UK and Gerber in US, led by (i) the adoption, adjustment and optimisation of our strategy to sell products to our certain OEM customers, such as Mamas & Papas and Impact Imports, with higher profit margin despite similar baby clothing products but different complexity with relatively smaller order quantities (as compared to those of Next and Gerber), for their more specified needs or higher standards; (ii) depreciation of GBP experienced by Next; and (iii) deteriorated sales performance of local mass markets in UK and US experienced by both Next and Gerber, respectively. For details, please refer to the paragraph headed “Our customers” in this section.

YOUR BABY OUR VISION

以愛編織 快樂未來

Our corporate motto is “Your Baby, Our Vision (以愛編織 快樂未來)” which we aim to offer products with safety, comfort and quality to babies as we believe that babies, being the end users of our products, would require extra care and higher standard during production. In 2004, we launched our OBM business. We then registered the trademark “mides” in Hong Kong in 2009. Each of the characters of “mides” shall carry the meaning as follows under which it becomes our business tenet throughout our business operations:



- M**ade for babies : Our products are designed and made specifically for babies and toddlers.
- I**ndivisible and united as one : We are an indivisible, united team catering to babies’ needs and fulfilling our mission.
- D**edicated to the community and its people : We are dedicated to serve and better our local community.
- E**xcellent quality : We strive to provide excellent quality in all our products.
- S**ervice from the heart : We serve our customers with sincerity and honesty.

BUSINESS

Our headquarters is located in Hong Kong which carries out our business functions of design and development, sales and marketing and daily management. In 2004, we launched our first department store counter in Hong Kong to start our OBM business with our own brand “mides” which was then registered in 2009. Further, we opened our first self-operated retail store in Hong Kong in 2009. As at the Latest Practicable Date, we had 10 self-operated retail stores and 12 department store counters in Hong Kong. According to the F&S report, our Group contributed approximately 7.0% of market share in terms of retail sales revenue of baby clothing in Hong Kong in 2016.

Our production facilities are located at Huangpu County, Zhongshan City, Guangdong Province in the PRC which carries out the entire production process including pre-production sampling, cutting, printing, embroidering, sewing, button attaching, ironing and packing. For FY2016, FY2017 and SP2017, our utilisation rates were approximately 95.7%, 73.4% and 70.2%, respectively. For details, please refer to the paragraph headed “Production facilities and warehouse” in this section.

Since we started our operations in 1993, our Group has been expanding our network and has built up our reputation in the baby clothing industry. Our Directors believe that our Group’s expertise and experience in the manufacture of baby fabric products enable us to offer our OEM customers “one-stop” services by integrating lengthy and complex production process to lower production cost and to enhance efficiency and mass production capacity.

COMPETITIVE STRENGTHS

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

We have established strong presence in the baby clothing industry in the PRC and Hong Kong

According to the F&S Report, there were around 10,000 manufacturers engaged in production of baby and child clothing and accessories in the PRC and we are regarded as one of the major suppliers in the PRC by our major customers in UK and US in 2016. With a proven track record of over 20 years as an established baby fabric products manufacturer and seller, and the strong growth potentials of the baby clothing industry in the PRC, our Directors believe that we are well-positioned to capture the growing demand for baby clothing industry in Hong Kong and the PRC.

We manufacture and sell our baby fabric products to overseas third party brand companies or designated sourcing companies as well as other retail and wholesale customers with our own brand “mides”. We operate retail stores in Hong Kong to sell baby fabric products under our own brand. We established our first department store counter in Hong Kong in 2004 and first self-operated retail store in 2009. Over the past 13 years, we have expanded our retail chain by opening more retail stores in Hong Kong and has penetrated the market gradually. In accordance with the F&S Report, we contributed approximately 7.0% of the market share in terms of retail sales revenue of baby clothing in Hong Kong in 2016. We believe that the growth of our OBM business in Hong Kong coupled with the provision of good quality baby fabric products can earn wide recognition of our own brands.

We have long-term business relationships with a number of our major customers and suppliers

We sell our baby fabric products through two major sales channels: (i) OEM business selling to the overseas third party brand companies and designated sourcing companies of the brand companies; and (ii) OBM business selling to customers under our wholesale and retail network. Most of our overseas third party brand companies encompass internationally-recognised baby clothing brands,

BUSINESS

such as Gerber, Mamas & Papas and Next. We have maintained business relationships with our five largest customers for the Track Record Period ranging from one to 23 years. We believe that we have built up a strong presence in the baby clothing industry and established good and close business relationships with our OEM customers. With the long-term cooperation with the internationally-recognised baby clothing brand companies, we have developed our capability with reference to international standards in terms of safety and quality control, and exchange ideas on baby fabric products worldwide. For details of our customers, please refer to the paragraph headed “Our customers” in this section.

We source the raw materials of cotton fabric from our approved suppliers or suppliers designated by our OEM customers. We have developed long term business relationships with our five largest suppliers for the Track Record Period ranging from five to 19 years. Given the well-established business relationship with our suppliers, we are able to secure a stable supply of safe and high quality raw materials, and may be able to obtain more competitive price. For details of our suppliers, please refer to the paragraph headed “Our suppliers and subcontractors” in this section.

We have an experienced and competent management team

We have an experienced and competent management team with extensive operational expertise and in-depth understanding of the baby clothing industry in Hong Kong. This allows us to anticipate market trends when formulating our development strategies. Ms. So Kit Lan, our production manager has over 30 years of experience in the baby clothing industry, while Ms. Fung and Ms. Ho, our executive Directors, have over 20 years of experience in the baby clothing industry. Ms. Fung is primarily responsible for overall management and financial and strategic planning of our Group, and Ms. Ho, and Ms. So Kit Lan are responsible for OEM business and production, respectively. For biographical details of our Directors and senior management, please refer to the section headed “Directors and senior management” in this prospectus.

We target to provide quality baby fabric products with high standards

We closely observe international standards that may apply to our OEM customers being third party brand companies located in Hong Kong, UK and US. These international standards include the Oeko-Tex[®] Standard 100 and Sanitized[®] license standard. We adopt stringent internal controls during our manufacturing process to ensure that our products can comply with not only PRC standards as required by the PRC laws and regulations as well as international standards that may be imposed upon our relevant customers.

To ensure that our baby fabric products are safe and harmless for babies, we also have a stringent quality control procedure throughout our production process. For example, (i) we conduct needle-detection check at least three times and make sure the end of thread at the linking parts is cut; and (ii) we generally recruit the locals in Huangpu County to be our production-related employees to minimise the turnover rate of skilled workers, thereby maintaining our production quality.

We have value-added product design and research and development capabilities

Our Directors consider that our ancillary value-added services in product design support and research and development will continue to support the growth of our business and complement both our OEM business as well as our OBM business.

BUSINESS

In general, our OEM customers require us to produce products based on their own design. To provide our value-added services to our OEM customers, as at the Latest Practicable Date, we had a research and development team of three members to work on the technical feasibility of designs provided by our OEM customers to transform an idea into a physical product. During the pre-production stage, we work closely with our OEM customers to maintain an acute awareness of international fashion trends and develop suitable baby clothing to consumers in different regions with different traditions. We also maintain a department of over 40 staff in the PRC for sample development.

As at the Latest Practicable Date, we had a design team of five members to support on the design of baby fabric products for our OBM business. We would also engage external overseas design team to develop our own brand products.

We are well-positioned to expand our OBM business in Hong Kong

We have set foot in the Hong Kong baby clothing market since 2004 by launching our first department store counter. We then registered the trademark “mides” in Hong Kong in 2009. As at the Latest Practicable Date, we had 10 self-operated retail stores and 12 department store counters in Hong Kong. We contributed approximately 7.0% of market share in terms of retail sales revenue of baby clothing in Hong Kong in 2016 according to the F&S Report. For FY2016, FY2017 and SP2017, our revenue generated from OBM business amounted to approximately HK\$80.3 million, HK\$79.7 million and HK\$27.4 million, representing approximately 19.6%, 23.7% and 22.9% of our total revenue, respectively. Further, the gross profit of our OBM business amounted to approximately HK\$64.0 million, HK\$58.9 million and HK\$22.5 million for FY2016, FY2017 and SP2017, respectively. Our Directors believe that the launch of our OBM business has largely been supported by our product design capabilities, as well as a solid manufacturing platform.

Further, our OBM business, unlike OEM business, peaks at different times during the year such that our Group is able to fully utilise our production capacity. We can fully utilise these “off-peak” times to produce products for our OBM business, thereby optimising the use of our production facilities, minimising low production periods and idle labour, and improving our return on investment.

BUSINESS STRATEGIES AND FUTURE PLANS

Our principal business objective is to strengthen our position in the baby clothing market. We intend to achieve these objectives by implementing the following strategies:

Upgrading our production facilities and enhancing the production capability through extensive application of RFID technology

According to the F&S Report, due to the improvement of technology and printing effect in the production of baby clothing, our customers would expect us to enhance our production capability to produce fashionable baby clothing with higher quality and more detailed and accurate patterns to cope with fashion trends and end-customers’ needs. In order to meet the expected increasing demand and requirements of our customers in respect of production technology and capability in detailed and accurate patterns and to increase our production efficiency, our Group plans to continue upgrading our existing production facilities by acquiring colour digital printing machines.

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Our Directors consider that the colour digital printing machines will enhance production diversification and cost effectiveness because: (i) it can handle multi-colour products and print highly accurate and detailed patterns, such as gradients and shading; and (ii) it allows us to cater for orders with small quantities due to the lower setup cost of colour digital printing. In addition, it is more environmentally-friendly with the adoption of specific ink for such machine. We purchased a trial colour digital printing machine in June 2017 and conducted a trial of the colour digital printing machine for the pre-production sampling since July 2017. Based on the communication between our management and customers, the trial colour digital printing machine can fulfil our customers' expectation on printing more detailed and accurate patterns and the overall performance of such machine is satisfactory. To respond to the aforementioned increase in demand and requirements of our customers, we plan to utilise approximately HK\$4.7 million from the net proceeds from the Share Offer to acquire two sets of colour digital printing machines in the first half year of 2018 and 2019 and to maintain such colour digital printing machines.

According to the accounting policy of our Group, the estimated useful life of our machines ranges from approximately three to five years. The current average age of our Group's major production machines was approximately 13.3 years as at 31 August 2017; and our sewing machines, loosening machines, embroidery machines, cutting machines and button attaching machines had over 10 years of service on average. As at 31 August 2017, we had 1,058 sewing machines, three loosening machines, 21 embroidery machines, 30 cutting machines and 11 button attaching machines, with approximate average years of service of 13.4 years, 10.2 years, 10.9 years, 15.2 years and 17.3 years, respectively. During the Track Record Period, we had incurred approximately HK\$2.3 million in the form of internal working capital to acquire machines of less-advanced models to replace some machines which were damaged or not functioning efficiently. We plan to add or replace our machines by acquiring more-advanced automatic or semi-automatic machines produced in the PRC, Japan and Taiwan, which are of higher cost than our current model according to the quotations from the dealers. We believe the more-advanced automatic and semi-automatic machines can strengthen our production efficiency and accuracy and also reduce the waste of cotton fabric and other production materials as compared with using existing machines. Furthermore, the use of the more-advanced machines facilitates us to accept sales orders with a shorter production period from our customers. In addition, we target to acquire two forklifts for our warehouse and one shrinkage prevention machine to improve our product quality against water shrinkage. To provide an optimal operating environment for the machines, we also plan to upgrade the air-conditioning and ventilation system of our workshops. Based on the current quotations, we plan to utilise approximately HK\$8.0 million from the net proceeds from the Share Offer for upgrading our existing production facilities as follow:

Additional machinery

Type of machinery	Quantity <i>(units)</i>	Estimated acquisition cost <i>(HK\$'000)</i>
Sewing machine	24	754
Cutting machine	2	1,565
Button attaching machine	12	417
Forklift	2	267
Shrinkage prevention machine	1	173
Total	<u>41</u>	<u>3,176</u>

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Replacement of existing machinery

Type of machinery	Quantity (units)	Estimated acquisition cost (HK\$'000)
Sewing machine	133	1,727
Embroidery machine	5	2,059
Air-conditioning and ventilation system	<u>1</u>	<u>1,049</u>
Total	<u><u>139</u></u>	<u><u>4,835</u></u>

Our Directors also consider that the RFID technology is expected to be widely used in the clothing market in the future. According to the F&S Report, RFID technology has already been used in the clothing manufacturing industry to track various products in a factory and during the logistic process, with major application currently in the PRC, US and Western Europe clothing factories of global clothing brands. When the RFID tags are appended to raw materials and clothing products, we are able to utilise the RFID tags for stock control, and tracking the movement and location of work-in-progress and clothing products. We target to apply RFID technology comprehensively to cover our whole production lines. We have applied RFID technology among part of our production lines since November 2013. Based on the quotation obtained from RFID solution providers and our Directors' experience and knowledge, we estimate that the total cost of applying the RFID technology comprehensively across our whole production lines would be around HK\$3.0 million which will be funded by the net proceeds from the Share Offer.

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. We are also able to utilise the RFID technology on data collection and location of work-in-progress to strengthen our production efficiency. It is estimated that approximately HK\$15.7 million or 35.7% of the net proceeds from the Share Offer will be used for acquiring of the colour digital printing machines, upgrading production facilities and applying RFID technology.

Enhancing our sales and marketing effort

According to the F&S Report, US was the largest importer of baby clothing products with a value share of 25.5% in 2016, while UK was the second largest with a value share of approximately 8.3% and other European countries, such as France, Germany, Spain, Italy and Netherlands, contributing in aggregate approximately 25.0% of the total import of baby clothing products. Our largest customers in FY2016, FY2017 and SP2017 were headquartered in UK. Our Directors believe that there are opportunities to explore the OEM market in US and other European countries. We plan to attend the baby clothing exhibitions held in these countries and conduct site visits to the potential overseas retailers and wholesalers to enhance our brand awareness and explore new business opportunity. We also plan to engage marketing agents to promote our products in overseas exhibitions.

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To facilitate our business development in OBM business, we target to promote our brand image and enhance our marketing strategy by (i) upgrading our electronic marketing tools, such as website and mobile applications; (ii) providing caring talks to parents and prospective parents; (iii) conducting marketing campaigns; and (iv) placing advertisements. To further diversify our product range, we will continue to engage external overseas design teams to develop our outdoor baby clothing products. We plan to lease some temporary booths in shopping malls and/or department store counters for sales of festive baby clothing which is designed by our design team.

We will continue to maintain our current market penetration by our efforts in maintaining and further improving our customer relationships leading to increasing customers' satisfaction. Our Directors intend to strengthen our sales strategies and expand our sales team, and explore business opportunities through recruiting a sales director. Our Group believes that a successful sales strategy will help further boost our retail sales.

We have emphasised the provision of hospitable services and professional product knowledge for our customers. To ensure that our customer service is of quality, we upgrade our sales staff by offering them training from time to time. To standardise our training method, we plan to develop e-learning programme for newly enrolled sales staff. We also emphasise training our sales staff on corporate culture. We believe that when our sales staff accept the corporate culture of our Group, they understand the importance of serving our customers with sincerity and hospitality.

Our Directors believe that our Group's efforts to strengthen our sales and marketing will enhance its sales and financial performance. It is estimated that approximately HK\$13.5 million or 30.7% of the net proceeds from the Share Offer will be used for enhancing our sales and marketing effort in overseas and Hong Kong.

Strengthening our research and development capabilities for the PRC market

With the implementation of "Two-child" Policy in the PRC in early 2016, the birth rate in PRC is expected to increase in the future. For the evaluation of our product acceptability, our Group has entered into wholesale agreements with a wholesale customer in the PRC by allowing them to sell baby clothing under our brand on the internet, its retail store and department store counter in the PRC.

We intend to expand our market share in the baby clothing market in the PRC in the future. To explore our business opportunity in the PRC, we plan to recruit a team of approximately six members for research and development in the PRC. The team is expected to (i) conduct research on the culture of local market; and (ii) develop new baby clothing products to capture the interest of local users in the PRC.

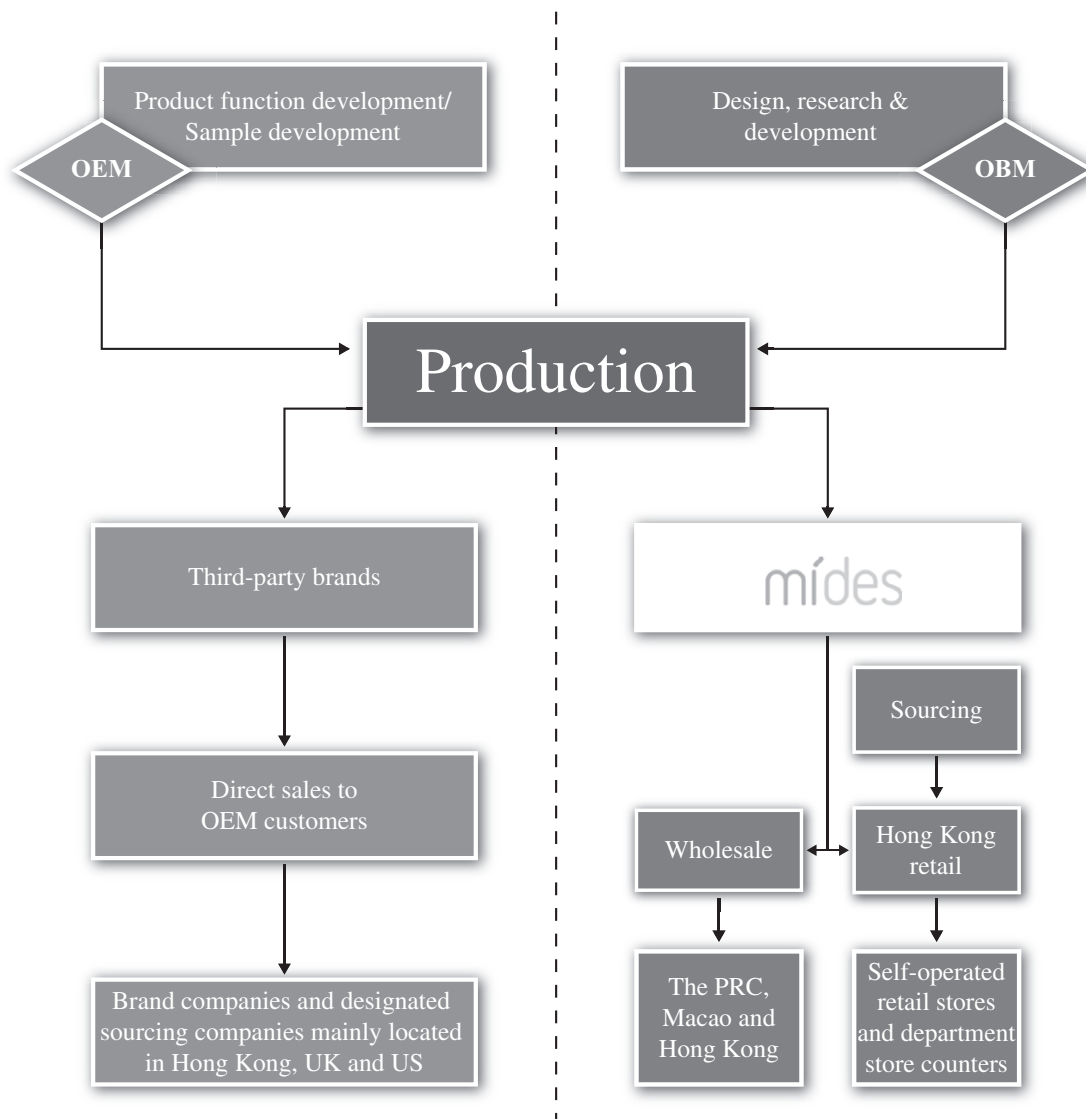
Our Directors believe that strengthening our research and development capabilities would enable our Group to improve our market position and increase our sales volume in the PRC. It is estimated that approximately HK\$6.8 million or 15.5% of the net proceeds from the Share Offer will be used for strengthening our research and development capabilities for the PRC market.

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OUR BUSINESS MODEL

We sell our baby fabric products through (i) our OEM business directly to overseas brand companies or designated sourcing companies mainly located in Hong Kong, UK and US; and (ii) our OBM business under our own brand “mides” through our self-operated retail department store counters in Hong Kong, and through wholesale channels in Hong Kong, the PRC and Macao. We also source products of third party brands by way of consignment or buyout, and sell them through our self-operated retail stores and department store counters in Hong Kong. Our OEM and OBM business are managed and operated by two separate teams of management and staff.

The following diagram illustrates our business model:

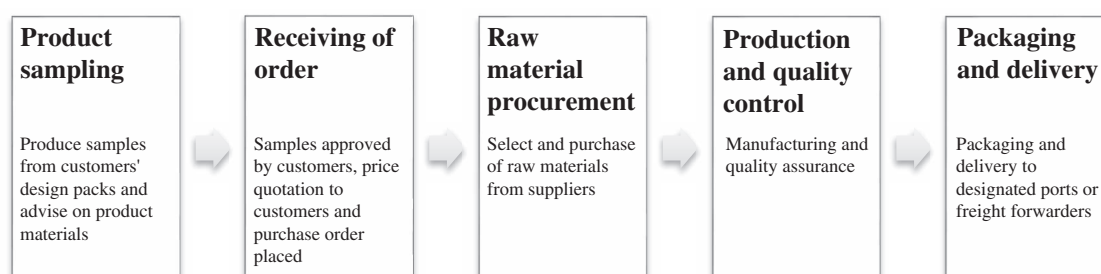


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OEM Business

Our Group manufactures and sells a wide range of baby fabric products to the overseas third party brand companies or designated sourcing companies mainly located in Hong Kong, UK and US that are marketed to infants and toddlers below two years old. Over the years, our Group has developed a unique set of production know-how to achieve the quality, appearance, texture and price points of baby clothing that have captured the loyalty of our customers. Our production business mainly comprises raw material sourcing and procurement, manufacturing, quality assurance and control and packaging and delivery. As part of our Group's value-added services, our Group also offers product research and development services for our OEM customers upon their request at no additional charge.

The following diagram illustrates the business model for OEM business:



Our Group's five largest customers in terms of total revenue were customers of our OEM business, with whom our Group has maintained business relationships for periods ranging from one to 23 years as at the Latest Practicable Date. In line with customary industry practice, our customers do not enter into long term contracts with us.

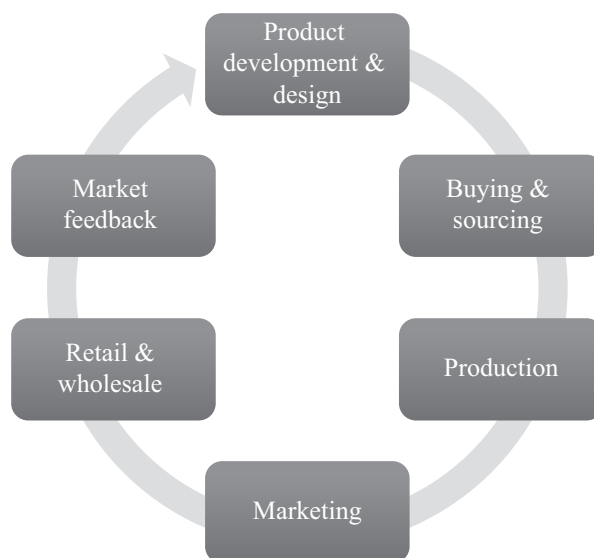
For FY2016, FY2017 and SP2017, aggregate revenue generated from our Group's five largest customers were approximately 78.4%, 73.1% and 68.3% of our total revenue, respectively. For details, please refer to the paragraph headed "Our customers" in this section.

OBM Business

For our OBM business, we manufacture and sell baby fabric products, that are marketed to babies and kids within the age range of up to six years old, through self-operated retail stores and department store counters in Hong Kong, and through wholesale in Hong Kong, the PRC and Macao under our own brand "mides". To cater for our customers' needs, we also source products of third party brands and sell them through our self-operated retail stores and department store counters in Hong Kong.

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The following diagram illustrates the business model for OBM business:



To explore the Hong Kong retail and wholesale market, and as a part of our Group's diversification strategy to expand our business, our Group leveraged on our industry expertise and technical capabilities to set foot in the local baby products' retail and wholesale market, offering our Group's baby fabric products as well as acting as retailers of third party baby products. In 2004, our Group commenced our OBM business by setting up department store counters located in Quarry Bay, Sheung Wan and Nathan Road, Hong Kong, selling our baby fabric products. In 2009, we launched our first "mides" self-operated retail store in Whampoa, Hong Kong. In 2014, our Group operated "MAMA'S DEAR" retail store located in Cyberport, Hong Kong, to focus on selling baby non-fabric products.

In order to expand our market to target high-end customers, our Group has launched "Precious" to provide products with gift sets and hampers in 2012. However, in order to streamline our business operation, we closed the specialty store of "Precious" in Shatin, Hong Kong in 2014 and, instead, sold its products in our "mides" self-operated retail stores and department store counters.

As at the Latest Practicable Date, our Group had 10 self-operated retail stores and 12 department store counters, located in different regions throughout Hong Kong.

We commenced our wholesale business in 2010 when we entered into a wholesale agreement with a business partner in Macao to supply "mides" products for onwards retail sales in Macao. In 2015, we entered into a wholesale agreement with a business partner in the PRC for retail stores, department store counters and online sales in the PRC. During the Track Record Period, some Hong Kong companies purchased our products on a wholesale basis from time to time. During FY2016 and FY2017, we also sold our products on wholesale basis to a business partner in Taiwan occasionally. Currently, we have no plan to actively explore the market in Taiwan. Our Directors consider that entering into a wholesale agreement with respective local business partners is more flexible and cost effective than setting up our own retail stores in other jurisdictions. For details, please refer to the paragraph headed "Sales and marketing" in this section.

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OUR PRODUCTS

We manufacture and sell baby fabric products for our OEM customers and place consistent emphasis on the quality of our products to strictly fulfil the stringent international safety standards as well as our customers' specifications and requirements. Our baby fabric products are known to our OEM customers for the quality, safety and durability. Our Directors believe that the distinguished qualities of our baby clothing are a result of our Group's dedication to a comprehensive quality assurance and control system.

To fully address our OBM customers' needs, we also source products of third party brands by ways of consignment or buyout, and sell them through our self-operated retail stores and department store counters in Hong Kong.

Internationally-recognised baby clothing brands in our OEM business

In our OEM business, we manufacture and sell our baby fabric products to the overseas third party brand companies and designated sourcing companies. Most of our overseas third party brand customers are internationally-recognised baby clothing brands, which include Gerber, Mamas & Papas and Next.

Baby fabric products under production

Our Directors believe that the distinguished qualities of our Group's baby clothing are a result of our Group's adherence to various high standards including Oeko-Tex[®] Standard 100 and Sanitized[®] licence standard, as well as dedication to a comprehensive quality assurance and control system.

Due to the difference in nature of the products, we have divided our OBM products under "mídes" brand into five major categories for marketing purposes, namely (i) skin wear, (ii) dream wear, (iii) home wear, (iv) smart wear and (v) little wear. Most of our baby fabric products are produced in Huangpu Factory and Ancillary Facilities, with certain procedures such as preparation of dip card and printing of brand labels being subcontracted to nearby factories where necessary. Please refer to the paragraph headed "Production" in this section.

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

Category	Picture	Description
Skin wear		Underwear products made with Supima cotton, cotton, padded cotton and merino wool
Dream wear		Sleeping accessories, such as baby urine pads, blankets, receiving blankets, sleeping bags and swaddles
Home wear		Basic garments, such as romper, robe, coat, pyjamas, windbreaker, vest, reversible jacket, pants and leggings
Smart wear		Outdoor garments with more fashionable and seasonal collection
Little wear		Fabric accessories, such as bibs, hats, mittens, booties and towels

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In general, our Group's products can be divided into baby fabric products and non-fabric products. We only produce baby fabric products in our production site and source baby fabric and non-fabric products, such as strollers, shoes, toys and cribs, from third party brands by way of consignment or buyout, and sell them through our self-operated retail stores and department store counters in Hong Kong.

Product type in OEM business

In our OEM business, our products can be divided into two main product categories, namely (i) baby clothing; and (ii) clothing accessories. We produce baby clothing products for our OEM customers. Based on our OEM customers' requirements, we may also manufacture certain clothing accessories, such as bibs, mittens and sleeping bags. For FY2016, FY2017 and SP2017, our sales of baby clothing and clothing accessories in OEM business were approximately 80.4%, 76.3% and 77.1% of total revenue, respectively.

A breakdown of our Group's revenue, sales volume and revenue per unit by baby clothing and clothing accessories in OEM business is set out below:

	FY2016				FY2017				SP2016				SP2017			
	Revenue		Revenue		Revenue		Revenue		Revenue		Revenue		Revenue			
	Units	per		Units	per		Units	per	Units	per		Units	per			
	sold	unit		sold	unit		sold	unit	sold	unit		sold	unit			
	HK\$'000	%	'000	HK\$'000	%	'000	HK\$'000	%	HK\$'000	%	'000	HK\$'000	%	'000	HK\$	
	(unaudited)															
Baby clothing	193,348	58.7	7,716	25.1	180,408	70.4	6,824	26.4	86,115	66.3	3,311	26.0	60,164	65.2	2,228	27.0
Clothing accessories	136,080	41.3	21,890	6.2	75,683	29.6	11,168	6.8	43,854	33.7	6,560	6.7	32,105	34.8	3,820	8.4
Total	<u>329,428</u>	<u>100</u>	<u>29,606</u>	<u>11.1</u>	<u>256,091</u>	<u>100</u>	<u>17,992</u>	<u>14.2</u>	<u>129,969</u>	<u>100</u>	<u>9,871</u>	<u>13.2</u>	<u>92,269</u>	<u>100</u>	<u>6,048</u>	<u>15.3</u>

A breakdown of gross profit and gross profit margin by baby clothing and clothing accessories in OEM business is set out below:

OEM	FY2016		FY2017		SP2016		SP2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)							
Baby clothing	44,885	23.2	53,569	29.7	24,176	28.1	21,208	35.3
Clothing accessories	22,150	16.3	13,620	18.0	8,200	18.7	6,902	21.5
	<u>67,035</u>	<u>20.3</u>	<u>67,189</u>	<u>26.2</u>	<u>32,376</u>	<u>24.9</u>	<u>28,110</u>	<u>30.5</u>

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For FY2016 and FY2017, the sales volume of our clothing accessories in the OEM business experienced a significant decrease from approximately 21.9 million units to approximately 11.2 million units due to our strategy to sell products with higher profit margins and the reduction of sales orders with Gerber. For SP2017, we recorded a sales volume of our clothing accessories in the OEM business of approximately 3.8 million units, representing a decrease of approximately 2.7 million units, or 41.8% as compared to SP2016. During the Track Record Period, the gross profit margin of baby clothing was approximately 23.2%, 29.7% and 35.3%, respectively, while the gross profit margin of clothing accessories was approximately 16.3%, 18.0% and 21.5%, respectively. Sales of clothing accessories to Gerber amounted to approximately HK\$86.4 million, HK\$54.1 million and HK\$15.9 million, represented approximately 63.4%, 71.5% and 49.7% of our total revenue from clothing accessories, respectively, as Gerber mostly purchased clothing accessories from us which were generally bulky in quantity but with lower gross profit margin. For details, please refer to the paragraph headed “Our customers — Decrease in revenue during the Track Record Period — The adoption, adjustment and optimisation of our strategy to sell products to our certain OEM customers with higher profit margin — Reducing sales to Gerber” in this section.

A table of the range of unit selling price of our products in OEM business by category is set out below:

	FY2016		FY2017		SP2016		SP2017	
	<i>Lowest</i>	<i>Highest</i>	<i>Lowest</i>	<i>Highest</i>	<i>Lowest</i>	<i>Highest</i>	<i>Lowest</i>	<i>Highest</i>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Baby clothing	26.8	78.4	23.3	104.5	26.5	89.2	22.1	122.9
Clothing accessories	4.5	54.2	4.6	54.2	4.6	54.2	4.7	54.2

Product type in OBM business

In our OBM business, our products include baby clothing and clothing accessories under our “mídes” brand and complementary third party brand products. For marketing purposes, our Group has further divided our products into five categories, namely (i) skin wear, (ii) dream wear, (iii) home wear, (iv) smart wear and (v) little wear. In order to provide a comprehensive product chain to our retail customers, we would also source complementary products from some third party brands and sell them under our self-operated retail stores and department store counters in Hong Kong. For details, please refer to the paragraph headed “Sales and marketing” in this section.

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A breakdown of our Group's revenue, sales volume and revenue per unit by categories of our own products and sourcing products in OBM business is set out below:

	FY2016				FY2017				SP2016				SP2017				
	HK\$'000		Revenue		HK\$'000		Revenue		HK\$'000		Revenue		HK\$'000		Revenue		
			Units sold	per unit			Units sold	per unit			Units sold	per unit			Units sold	per unit	
		%	'000	HK\$		%	'000	HK\$		%	'000	HK\$		%	'000	HK\$	
	<i>(unaudited)</i>																
Own products under "mides"																	
Baby clothing	50,880	63.3	361	140.9	48,982	61.4	414	118.3	15,811	56.4	137	115.4	16,902	61.7	138	122.5	
Clothing accessories	18,162	22.6	170	106.8	18,865	23.7	197	95.8	6,623	23.6	62	106.8	6,298	23.0	58	108.6	
Sub-total	69,042	85.9	531	130.0	67,847	85.1	611	111.0	22,434	80.0	199	112.7	23,200	84.7	196	118.4	
Complementary third party brand products	11,295	14.1	134	84.3	11,872	14.9	174	68.2	5,624	20.0	61	92.2	4,194	15.3	59	71.1	
Total	80,337	100	665	120.8	79,719	100	785	101.6	28,058	100	260	107.9	27,394	100	255	107.4	

A table of range of unit selling price of our products in OBM business by category is set out below:

	FY2016		FY2017		SP2016		SP2017	
	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Own products under "mides"								
Baby clothing	50	658	50	658	50	658	50	658
Clothing accessories	25	628	25	888	25	888	25	888
Complementary third party brand products	15	13,600	15	13,600	15	13,600	15	13,600

For FY2016, FY2017 and SP2017, the sales volume of baby clothing products under "mides" was approximately 0.4 million units, 0.4 million units and 0.1 million units, respectively. The sales volume of clothing accessories under "mides" was approximately 0.2 million units, 0.2 million units and 0.1 million units, respectively, for the same period. We recorded sales volume of complementary third party brand products of approximately 0.1 million units, 0.2 million units and 0.1 million units for FY2016, FY2017 and SP2017, respectively.

Seasonality

Due to the nature of our business, we have experienced seasonal fluctuations in sales during the year. In our OEM business, we record higher sales in Quarter 1 (April to June) and Quarter 3 (October to December), while lower sales are recorded in Quarter 4 (January to March). Our Directors consider

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that such effect is a result of the seasonal climatic changes of spring and autumn, distribution time and shipping schedules. In our OBM business, we record higher sales from October to December, affected by the increased demands during the holiday seasons of Christmas and before Chinese New Year.

Set out below is a breakdown of our Group's revenue by quarters for FY2016 and FY2017:

OEM business

	FY2016		FY2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Quarter 1 (April to June)	108,128	32.8	89,139	34.8
Quarter 2 (July to September)	81,830	24.8	51,619	20.2
Quarter 3 (October to December)	92,491	28.1	68,123	26.6
Quarter 4 (January to March)	<u>46,979</u>	<u>14.3</u>	<u>47,210</u>	<u>18.4</u>
Total	<u><u>329,428</u></u>	<u><u>100</u></u>	<u><u>256,091</u></u>	<u><u>100</u></u>

OBM business

	FY2016		FY2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Quarter 1 (April to June)	20,004	24.9	18,071	22.7
Quarter 2 (July to September)	16,912	21.1	16,163	20.3
Quarter 3 (October to December)	25,424	31.6	25,752	32.3
Quarter 4 (January to March)	<u>17,997</u>	<u>22.4</u>	<u>19,733</u>	<u>24.7</u>
Total	<u><u>80,337</u></u>	<u><u>100</u></u>	<u><u>79,719</u></u>	<u><u>100</u></u>

Pricing policy

For our OEM business, the prices of our products charged to our customers are determined on a cost-plus basis. We take into account several factors including cost of raw materials and accessories, order volume, labour costs, processing costs, product specifications and lead time. Our quotation to customers are with a mark-up margin on the cost of raw materials and other production costs.

For our OBM business, we have regular review on our retail pricing policy. Consideration is given to factors including production cost, a mark-up margin and market trends. We would from time to time offer discounts and other promotional offers to our retail customers to meet the market response to our existing products.

To fully address our OBM customers' needs, we have sourced consignment and buyout products from some third party brands and selling under our self-operated retail stores and department store counters in Hong Kong. For deciding the price of sourced products, we would consider the suggested retail price plus a mark-up margin.

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SALES AND MARKETING

We conduct our sales and marketing by our sales and merchandising department for OEM business and sales and marketing department for OBM business with different methods depending on our business segments.

OEM Business

We obtain our business opportunities upon request for quotations. Our sales and merchandising department focuses primarily on the promotion of business relationship with baby clothing brand companies. We actively explore new business opportunities by identifying potential OEM customers in the industry and liaising with existing and potential OEM customers from time to time.

Apart from that, we have a showroom at our headquarters in Hong Kong to display our baby fabric products and techniques to existing and potential OEM customers. Our sales and merchandising department maintains product introduction meetings with overseas OEM customers every year and keep ourselves abreast of their evolving needs and the business trend in the industry.

For FY2016, FY2017 and SP2017, our OEM business segment has generated approximately 80.4%, 76.3% and 77.1% of our total revenue, respectively. Some of our OEM customers are internationally-recognised baby clothing brand companies such as Gerber, Mamas & Papas and Next. For details, please refer to the paragraph headed “Our customers” in this section.

OBM Business

Due to the nature of our products and OBM business, our target customers of the retail business are parents and prospective parents and our wholesale customers are retailers in the PRC and Macao and nutrition companies, medical institutions and hotels in Hong Kong. To ensure that our products are to the satisfaction of our retail customers, we offer caring talks and product introductions from time to time to target customers. During the caring talks, our marketing team members and/or external nanny trainer share their experience on baby caring topics and present with the products with our own brand to enhance the brand image.

In order to promote brand awareness, we have also established a cooperation relationship with a number of hospitals in Hong Kong to provide free baby underwear products for antenatal classes held by the hospitals.

To enhance our retail customers’ loyalty, we launched a membership program and have been offering a special discount on certain products to our members from time to time. As at the Latest Practicable Date, there were over 33,000 active members registered in our membership program.

We established our social media page in 2009 with over 41,000 followers as at the Latest Practicable Date. We also launched different promotional events from time to time, e.g. baby model recruitments, group-wide promotions, etc. We use various means to promote our Group, including promoting through magazines and bus advertisements. Our Directors believe that these can enhance the brand image and attract more customers.

Our retail stores

As at the Latest Practicable Date, our Group had a chain of 22 retail stores comprising 10 self-operated retail stores and 12 department store counters throughout Hong Kong, Kowloon and the New Territories.

The table below sets out the operating data of each of our retail stores during the Track Record Period:

Location & Type of store	Year of profit and loss breakeven	Year of commencement of the first lease	Duration of current/most recent lease as at the Latest Practicable Date	Approximate gross floor area (sq. ft.) ⁽¹⁾	FY2016				FY2017				SP2017						
					Number of transactions	Number of operation days	Approximate average spending per transaction	Approximate daily revenue	Number of transactions	Number of operation days	Approximate average spending per transaction	Approximate daily revenue	Number of transactions	Number of operation days	Approximate average spending per transaction	Approximate daily revenue			
																	HKS	HKS '000	HKS
Hong Kong - Self-operated retail store																			
Windsor House, Causeway Bay	2011	2010	5 years from 3 May 2016 to 2 May 2021	1,058	42,776	364	148	17,431	6,345	34,910	357	145	14,137	5,047	14,644	152	124	11,960	1,818
Lee Gardens, Causeway Bay ⁽²⁾	N/A	2014	3 years from 1 May 2014 to 30 April 2017 (expired)	1,064	4,966	364	291	3,967	1,444	4,794	361	259	3,435	1,240	217	20	195	2,113	42
Cyberport, Pokfulam	N/A	2014	2 years from 1 August 2016 to 31 July 2018	1,876	7,344	342	315	6,766	2,314	5,745	333	293	5,060	1,685	1,815	129	254	3,377	461
Kornhill Plaza, Tai Koo ⁽³⁾	2015	2015	3 years from 1 April 2015 to 31 March 2018	400	13,821	338	140	5,707	1,929	18,457	363	135	6,862	2,491	8,527	152	118	6,632	1,008
Hong Kong - Department store counter																			
Wing On (Sheung Wan)	2011	2011	1 year from 1 April 2017 to 31 March 2018	570	29,494	364	152	12,338	4,491	29,465	362	150	12,174	4,407	10,883	152	129	9,259	1,407
Aeon (Kornhill) ⁽⁴⁾	2014	2014	2 years from 1 January 2014 to 31 December 2015 (early terminated in June 2015)	300	2,897	89	126	4,090	364	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sogo (Causeway Bay) ⁽⁵⁾⁽⁶⁾	2015	2015	1 year from 1 September 2017 to 31 August 2018	258	9,840	365	207	5,573	2,054	31,877	364	156	13,681	4,980	16,067	152	128	13,488	2,050
Kowloon - Self-operated retail store																			
Whampoa Garden, Hung Hom ⁽⁷⁾	2016	2016	3 years from 15 June 2016 to 14 June 2019	468	N/A	N/A	N/A	N/A	N/A	14,066	264	130	6,928	1,829	8,164	152	111	5,966	907
Moko, Mong Kok ⁽⁵⁾	2013	2013	3 years from 9 May 2016 to 8 May 2019	643	33,296	364	147	13,415	4,883	36,692	362	147	14,851	5,376	14,156	152	135	12,545	1,907

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Location & Type of store	Year of profit and loss breakeven	Year of commencement of the first lease	Duration of current/most recent lease as at the Latest Practicable Date	Approximate gross floor area (sq. ft.) ⁽¹⁾	FY2016				FY2017				SP2017						
					Number of		Approximate		Number of		Approximate		Number of		Approximate				
					transactions	operation days	spending per transaction	average daily revenue	transactions	operation days	spending per transaction	average daily revenue	transactions	operation days	spending per transaction	average daily revenue			
Olympian City 3, Tai Kok Tsui	2015	2015	3 years from 24 March 2015 to 23 March 2018	160	12,450	347	598	21,467	7,449	14,077	362	415	16,152	5,847	12,947	152	132	11,237	1,708
Kowloon - Department store counter																			
Wing On (Jordan)	2006	2006	1 year from 1 April 2017 to 31 March 2018	317	20,202	364	154	8,558	3,115	29,465	362	88	7,138	2,584	6,629	152	125	5,464	831
Aeon (Whampoa) ⁽⁸⁾⁽⁹⁾	2007	2007	2 years from 1 January 2015 to 31 December 2016 (early terminated in May 2016)	170	18,024	365	140	6,918	2,525	2,633	41	136	8,732	358	N/A	N/A	N/A	N/A	N/A
Clifstone (Tai Kok Tsui) ⁽⁴⁾	2014	2014	4 months, 3 days from 1 September 2015 to 3 January 2016 (expired)	582	2,706	158	204	3,500	553	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Yata (Kwun Tong)	2014	2014	1 year from 1 January 2017 to 31 December 2017	150	11,452	365	140	4,378	1,598	15,359	364	125	5,291	1,926	5,797	152	110	4,192	637
New Territories - Self-operated retail store																			
East Point City, Tseung Kwan O ⁽¹⁰⁾	2011	2009	2 years from 20 September 2015 to 19 September 2017 (expired)	682	17,802	364	136	6,657	2,423	17,311	363	134	6,397	2,322	6,713	152	111	4,891	743
Citygate, Tung Chung ⁽⁸⁾	2012	2012	2 years from 2 March 2015 to 1 March 2017 (early terminated in April 2016)	460	26,709	366	118	8,598	3,147	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Tuen Mun Town Plaza, Tuen Mun ⁽¹¹⁾	2013	2013	3 years from 1 April 2016 to 31 March 2019	1,296	42,671	350	139	16,969	5,939	40,638	363	141	15,802	5,726	14,708	152	125	12,138	1,845
Discovery Park Shopping Centre, Tsuen Wan ⁽³⁾⁽¹²⁾	2015	2015	3 years from 1 September 2015 to 31 August 2018	326	6,276	195	155	4,985	972	16,234	362	133	5,983	2,166	7,250	152	106	5,068	770
Fu Tung Plaza, Tung Chung ⁽⁷⁾	2016	2016	2 years from 3 May 2016 to 2 May 2018	227	N/A	N/A	N/A	N/A	N/A	9,949	312	128	4,093	1,277	5,243	146	102	3,651	533

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Location & Type of store	Year of profit and loss breakeven	Year of commencement of the first lease	Duration of current/most recent lease as at the Latest Practicable Date	Approximate gross floor area (sq. ft.) ⁽¹⁾	FY2016				FY2017				SP2017						
					Number of transactions	Number of operation days	Approximate average spending per transaction	Approximate average daily revenue	Number of transactions	Number of operation days	Approximate average spending per transaction	Approximate average daily revenue	Number of transactions	Number of operation days	Approximate average spending per transaction	Approximate average daily revenue			
																	HK\$	HK\$ '000	HK\$
New Town Plaza, Sha Tin ⁽²⁾⁽⁷⁾	2017	2017	6 months from 15 January 2017 to 14 July 2017 (expired)	524	N/A	N/A	N/A	N/A	5,049	56	233	21,000	1,176	11,280	96	130	15,267	1,466	
YOHO Mall, Yuen Long ⁽¹³⁾	N/A	2017	3 years from 21 June 2017 to 20 June 2020	1,084	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,888	41	154	7,109	291	
New Territories - Department store counter																			
Citistore (Tseung Kwan O) ⁽⁵⁾	2006	2006	11 months and 23 days from 8 September 2017 to 31 August 2018	311	12,769	365	149	5,205	1,900	14,805	363	138	5,651	2,044	4,741	111	4,086	527	
Citistore (Ma On Shan)	2008	2008	11 months, 26 days from 6 January 2017 to 31 December 2017	400	15,706	365	136	5,851	2,135	14,499	360	137	5,508	1,983	7,287	152	5,534	841	
Citistore (Yuen Long) ⁽⁵⁾	2008	2008	12 months from 1 December 2017 to 30 November 2018	366	33,519	364	128	11,810	4,299	33,690	362	130	12,122	4,388	11,885	117	9,157	1,392	
Citistore (Tuen Wan)	2009	2009	1 year from 1 June 2017 to 31 May 2018	433	28,729	364	137	10,832	3,943	27,718	363	132	10,099	3,666	9,729	124	7,935	1,206	
Yata (Sha Tin)	2009	2009	1 year from 1 January 2017 to 31 December 2017	150	33,298	366	163	14,857	5,437	33,108	364	163	14,816	5,393	8,443	146	8,189	1,196	
Yata (Tai Po)	2011	2011	1 year from 1 January 2017 to 31 December 2017	120	21,517	366	155	9,093	3,328	26,041	364	144	10,332	3,761	11,253	152	8,992	1,367	
Yata (Tseung Kwan O) ⁽⁴⁾	2013	2013	1 year from 1 January 2015 to 31 December 2015 (expired)	150	10,474	275	151	5,742	1,579	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Yata (Tuen Mun)	2013	2013	1 year from 1 January 2017 to 31 December 2017	160	19,862	362	155	8,497	3,076	23,089	363	142	9,008	3,270	8,608	152	121	6,874	1,045
Yata (Tseung Kwan O) ⁽¹³⁾	2017	2017	5 months, 18 days from 14 July 2017 to 31 December 2017	140	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	547	48	122	1,391	67

Notes:

- (1) The approximate gross floor area of the retail stores is estimated by our Directors.
- (2) Such store had been closed down during SP2017.
- (3) Such store had been opened during FY2016.
- (4) Such store had been closed down during FY2016.
- (5) During the Track Record Period, these retail stores and department store counters had relocated within the same shopping malls. As confirmed by our Directors, the operation of these retail stores and department store counters had been continuing during the period of relocation.
- (6) The revenue generated from this department store counter increased from approximately HK\$2.0 million for FY2016 to approximately HK\$5.0 million for FY2017 due to the increase in the capability to serve more customers resulting from the relocation to a larger department store counter in the same department store since July 2016.
- (7) Such store had been opened during FY2017.
- (8) Such store had been closed down during FY2017.
- (9) The revenue generated from this department store counter decreased from approximately HK\$2.5 million for FY2016 to approximately HK\$0.4 million for FY2017 due to the close down of this department store counter in May 2016 during FY2017.
- (10) Such store had been closed down during the period between 1 September 2017 and the Latest Practicable Date.
- (11) The store size of this retail store was enlarged through the additional rental of the neighbouring store in September 2015.
- (12) The revenue generated from this retail store increased from approximately HK\$1.0 million for FY2016 to approximately HK\$2.2 million for FY2017 as such retail store only operated seven months in FY2016 since September 2015.
- (13) Such store had been opened during SP2017.

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The table below sets out the revenue of our retail business by geographical areas and retail channels during the Track Record Period:

Retail	FY2016		FY2017		SP2016		SP2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>							
Hong Kong								
- Self-operated retail stores	12,032	15.6	10,463	14.0	4,180	15.8	3,330	12.8
- Department store counters	<u>6,889</u>	<u>8.9</u>	<u>9,387</u>	<u>12.5</u>	<u>2,913</u>	<u>11.0</u>	<u>3,457</u>	<u>13.3</u>
Sub-total	18,921	24.5	19,850	26.5	7,093	26.8	6,787	26.1
Kowloon								
- Self-operated retail stores	12,332	15.9	13,052	17.4	4,357	16.5	4,522	17.3
- Department store counters	<u>7,791</u>	<u>10.1</u>	<u>4,868</u>	<u>6.5</u>	<u>2,105</u>	<u>8.0</u>	<u>1,468</u>	<u>5.6</u>
Sub-total	20,123	26.0	17,920	23.9	6,462	24.5	5,990	22.9
New Territories								
- Self-operated retail stores	12,481	16.2	12,677	16.9	4,232	16.0	5,649	21.7
- Department store counters	<u>25,697</u>	<u>33.3</u>	<u>24,505</u>	<u>32.7</u>	<u>8,641</u>	<u>32.7</u>	<u>7,640</u>	<u>29.3</u>
Sub-total	38,178	49.5	37,182	49.6	12,873	48.7	13,289	51.0
Total	<u><u>77,222</u></u>	<u><u>100</u></u>	<u><u>74,952</u></u>	<u><u>100</u></u>	<u><u>26,428</u></u>	<u><u>100</u></u>	<u><u>26,066</u></u>	<u><u>100</u></u>

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The table below sets forth the changes in the number of our retail stores during the Track Record Period:

Number of stores	FY2016	FY2017	SP2017
As at the beginning of the financial year/period	23	22	23
Opened during the financial year/period	2	3	2
Closed during the financial year/period	3	2	2
Net increase/(decrease) during the financial year/period	(1)	1	0
As at the end of the financial year/period	22	23	23

Our retail store at East Point City, Tseung Kwan O had been closed in September 2017 and we therefore have 22 retail stores and department store counters as at the Latest Practicable Date.

Among these 22 retail stores, the leases of two self-operated retail stores and eight department store counters (with Citistore, Wing On and Yata, respectively) will expire during FY2018. As at the Latest Practicable Date, we were negotiating with the landlords/department stores on the renewals. Given (i) our Group has maintained counters with Citistore, Wing On and Yata since 2006, 2006 and 2009, respectively; (ii) previous experience on renewal negotiation; and (iii) our Group not having received any indication on termination of business relationship, our Directors consider that there is no material impediment on the renewal of the aforesaid department store agreements and no material changes in the terms of the leases with Citistore, Wing On and Yata.

As for the two self-operated retail stores, our Directors do not foresee any material impediment in the renewal of lease in view of the satisfactory performance of these two stores.

Breakeven and return on our investment on retail stores

As at 31 August 2017, we were operating 23 self-operated retail stores and department store counters in Hong Kong. Except for one retail store which our Group operated for strategic objectives including brand building and marketing purpose (as further elaborated below) and one newly launched self-operated retail store, all of the self-operated retail stores and department store counters had achieved profit and loss breakeven and were making a profit during Track Record Period. Of these 23 self-operated retail stores and department store counters, for the purpose of breakeven period and investment payback period analysis, having considered the internal monthly record of each point of sales that is only available starting from 2012, we consider 13 existing self-operated retail stores and department store counters that were launched since 2012. Out of those 13 stores and counters, 12 had achieved a profit and loss breakeven. The breakeven period (i.e. the period required for a self-operated retail store or department store counter to generate sufficient sales to cover its operating cost) ranged from one month to six months. 11 of those 12 stores and counters had generated cash from operation to cover their respective initial setup cost and operating loss (if any), and the investment payback period (i.e. the period of time required to recover the initial setup cost and

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operating cost) of those self-operated retail stores and department store counters ranged from one month to 12 months. Our Directors understand that there is no specific industry average for breakeven period and investment payback period as each retail store will vary with many factors, such as the size of the store, location, business strategy and target customers.

Our Group has been operating the self-operated retail store at Cyberport, Pokfulam under the brand “MAMA'S DEAR” since April 2014. It had not achieved profit and loss breakeven and had not obtained investment payback, primarily due to the remoteness of its location and relatively lesser transactions. Our Directors consider that the operation of this store generated non-monetary benefits to our Group, including brand building, market penetration by gaining access to a broader variety of potential customers, and the market position implication, which outweighs the losses incurred in the past few years. Our Directors consider it is a suitable location to further develop our brands with, and will closely monitor the monetary performance and other non-monetary factors.

We commenced the operation of the retail store at YOHO Mall, Yuen Long in July 2017 and it has achieved profit and loss breakeven in December 2017 but not yet covered the initial setup cost due to short operation period.

Developing our new retail stores

We consider a suitable shopping mall to be a critical factor in determining the long-term performance of a self-operated retail store or department store counter. Our sales and marketing team would observe the location and surrounding retail environment before opening of each new retail stores. We will decide to open a new retail stores on a new location after taking into account, among others, factors such as:

- cost of rental;
- accessibility and customer traffic;
- baby zone in shopping malls;
- size of store; and
- image and reputation of shopping malls.

The management team of Babies Trendyland and our sales and marketing team are responsible for the site selection process, including evaluation, inspection and approval of each retail store location. We would also consider our capital expenditure commitment and estimated return on investment during the selection process. After identifying an ideal location, we would enter into a lease agreement for the premises and engage an outside contractor to renovate the premises. We would further source the staffing by internal transfer and/or recruitment.

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Cash and financial management of our retail operations

We have purchased a point-of-sales system from a third party to record, process and manage retail point of sale data across our retail network. Based on the information, our staffs can perform reconciliation between the receipts issued to our customers and cash at hand in each retail store. We would also trace inventory levels across our retail stores and track the status of each product through the system. The system allows us to retrieve detailed reports of sales revenues with breakdown of products types sold at each retail store and enables our management to constantly monitor the performance of each retail store in order to estimate subsequent sales and required inventory.

Our retail customers' bills are generally settled by credit card and cash. For credit card, we normally receive remittances from the credit card issuers, net of service charges, by the end of month. Service charges ranging from 1.445% and 1.6% of the bill amounts were imposed on our retail stores by the credit card issuers.

For cash management, we developed an effective management system to handle the cash. Our staff in retail stores would conduct reconciliations of sales records by summaries generated from our point-of-sales system with the actual cash receipt and the cash deposit with banks on a daily basis. In order to heighten the security, we require another staff from the same retail store to confirm the accuracy of the amount of the cash receipt. Our backend staff are responsible to collect the cash receipts and deposit them into the bank accounts of the respective retail stores on the next business day when the cash is received. We have taken out insurance for the cash we kept at our retail stores.

Products under third party brands

In order to provide a comprehensive product chain to our retail customers, we also source products, such as strollers, shoes, toys and cribs, from some third party brands and sell them under our self-operated retail stores and department store counters in Hong Kong. For FY2016, FY2017 and SP2017, the revenue generated from such third party brand products was approximately HK\$11.3 million, HK\$11.9 million and HK\$4.2 million, representing 14.1%, 14.9% and 15.3% of our total revenue of our OBM business, respectively. Our Directors believe that such third party brand products allow us to cater the consumers' different needs and to complement our self-operated retail stores and department store counters as a comprehensive baby products provider.

We generally enter into consignment agreements with our consignors. The salient terms of these agreements are as follows:

(i) *Consignment of goods:*

A brief description of the consignment products with the brand name is contained.

(ii) *Commission split:*

In general, we would receive a commission of 40% of selling price of consignment products.

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(iii) *Contract period:*

The consignment agreement is generally valid for an indefinite period of time.

(iv) *Title of goods:*

The title of the consignment products shall remain with the consignor until the products are purchased.

(v) *Premises restriction:*

The consignment products shall be kept and displayed in the designated retail store and its storeroom.

(vi) *Delivery:*

The consignor shall deliver the products to our retail stores at the consignor's costs.

Wholesale

We commenced our wholesale network in 2010 when we entered into a wholesale agreement with a business partner in Macao to supply “mides” products for onwards retail sales in Macao. In 2015, we enter into similar wholesale agreement with a business partner in the PRC for retail stores, department store counters and online sale in the PRC. As at Latest Practicable Date, our business partners in Macao and the PRC had one retail store in Macao and one retail store in Guangzhou, respectively. During the Track Record Period, some nutrition companies, medical institutions and hotels in Hong Kong purchased our products as their gift sets on wholesale basis from time to time.

Set out below is a breakdown of revenue generated under the aforementioned wholesale agreements during the Track Record Period:

Location	FY2016		FY2017		SP2016		SP2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>							
PRC	1,852	59.4	3,690	77.4	1,333	81.8	1,021	76.9
Macao	1,027	33.0	788	16.5	178	10.9	235	17.7
Taiwan	69	2.2	57	1.2	45	2.8	0	0
HK	167	5.4	232	4.9	74	4.5	72	5.4
Total	3,115	100	4,767	100	1,630	100	1,328	100

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In FY2016 and FY2017, we sold our products on wholesale basis to a business partner in Taiwan occasionally. Our Directors consider that the sales through the wholesaler in Taiwan was not satisfactory and profitable. Currently, we have no plan to actively explore the market in Taiwan and no revenue was generated from Taiwan during SP2017. In general, we enter into a wholesale agreement with each of the overseas wholesale customers. The salient terms of these wholesale agreements are as follows:

(i) *Geographic restriction:*

We allow our customers to operate their retail sales within a designated region on an exclusive basis.

(ii) *Brand:*

Our brand “mídes” is authorised to our wholesale customers for setting up retail stores.

(iii) *Price:*

Our wholesale customers will sell our products with reference to our recommended retail price.

(iv) *Period:*

The period of agreement is generally from three years to five years.

(v) *Delivery:*

We deliver our products to our wholesale customers at their costs.

OUR CUSTOMERS

For FY2016, FY2017 and SP2017, our OEM business has generated approximately 80.4%, 76.3% and 77.1% of our total revenue, respectively. Our OEM customers mainly comprise of (i) the overseas third party brand companies; and (ii) designated sourcing companies.

OEM customers

These overseas third party brand companies are mainly reputable and internationally recognised baby clothing companies headquartered in UK and US. For FY2016, FY2017 and SP2017, we had 10, nine and nine OEM customers, respectively.

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Set out below is a breakdown of our Group's revenue by OEM customers' geographical locations during Track Record Period:

	FY2016			FY2017			SP2016			SP2017		
	<i>Number of customer</i>	<i>HK\$'000</i>	<i>%</i>	<i>Number of customer</i>	<i>HK\$'000</i>	<i>%</i>	<i>Number of customer</i>	<i>HK\$'000</i>	<i>%</i>	<i>Number of customer</i>	<i>HK\$'000</i>	<i>%</i>
								<i>(unaudited)</i>				
UK	7	189,788	57.6	5	144,420	56.4	5	75,846	58.4	5	40,826	44.2
US	2	127,185	38.6	2	98,807	38.6	2	48,561	37.4	3	45,650	49.5
Hong Kong ^(Note)	1	12,455	3.8	1	11,725	4.6	1	4,423	3.4	1	5,793	6.3
PRC	0	0	0.0	1	1,139	0.4	1	1,139	0.8	0	0	0
Total	<u>10</u>	<u>329,428</u>	<u>100</u>	<u>9</u>	<u>256,091</u>	<u>100</u>	<u>9</u>	<u>129,969</u>	<u>100</u>	<u>9</u>	<u>92,269</u>	<u>100</u>

Note: It includes sample sales of approximately HK\$11,000, HK\$43,000 and HK\$10,000 for FY2016, FY2017 and SP2017, respectively.

In general, we do not enter into long term agreements with our OEM customers and our OEM customers place us purchase orders on an order-by-order basis. Our Directors consider that such arrangement is in line with the industry practice. To optimise our production efficiency and to yield greater flexibility, we liaise with our OEM customers for the sales orders based on their actual purchase quantity; our Group is also in a better position to minimise the inventory of raw materials and optimise resources allocation to meet our OEM customers' demands and expectations in the most cost efficient manner. A typical purchase order includes the following salient terms:

(i) *Product description:*

A brief description of the products, including the type of baby clothing and clothing accessories, raw materials required, quality requirements, etc.

(ii) *Order details:*

The quantity, unit price and total amount are also specified.

(iii) *Shipment details:*

The date of shipment, which is usually 60 to 90 days from the date of production. The delivery term is normally FOB, which means the title and risks attached to our products will be passed to our customer once the goods are loaded on the board of the vessel at the port of departure and the revenue will be recognised at that time.

In general, we grant to our OEM customers a credit term of 30 to 90 days upon the date of issue of our invoices and sales payment is usually settled by bank transfer upon delivery. Individual credit evaluations are performed on our OEM customers. These evaluations focus on the OEM customer's past history and current payment ability, and take into account information specific to the OEM customer such as business relationship.

In determining our product price, we generally take into account the total manufacturing cost and quantity of products in the purchase order, business relationship, and a certain percentage of profit margin. We generally do not offer discounts to our OEM customers.

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For FY2016, FY2017 and SP2017, the sales to our Group's largest customer amounted to approximately 29.3%, 20.8% and 25.3% of our Group's total revenue, respectively, while the sales to our Group's five largest customers amounted to approximately 78.4%, 73.1% and 68.3% of our Group's total revenue, respectively.

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

For FY2016

Rank	Customer	Rank of our Group as a supplier to the respective customer for baby clothing and clothing accessories in the PRC	Background and market position of customer	Products provided to customer	Number of years of relationship as at the Latest Practicable Date	Approximate amount of revenue (HK\$'000)	Approximate percentage of revenue of our Group (%)
1	Next	Second largest supplier	A clothing sourcing company in Hong Kong; subsidiary of a public company listed in the London Stock Exchange. A British brand retailer selling clothing, footwear and home products to mass market.	Baby clothing and clothing accessories	11	119,950	29.3
2	Gerber	Second largest supplier	A leading baby product seller headquartered in US targeting mass market. Major sales channels include Babies"R"us, Buy Buy Baby, KOHL's, Target, Walmart.	Baby clothing and clothing accessories	20	94,116	23.0
3	Mamas & Papas	Largest supplier	A leading baby product seller headquartered in UK, targeting mid to high-end consumers through retail stores including those established in shopping malls such as Westfield Shopping Centre and franchisees. Awarded "UK's best selling nursery brand" in early 2010's.	Baby clothing and clothing accessories	8	61,583	15.0
4	Impact Imports	Largest supplier	A baby product seller headquartered in US. Selling mainly 0-24 months baby clothing, footwear and accessories, and targeting mid to high-end customers. Major sales channels include Barney, Bloomingdale's, Dillard's Neiman Marcus.	Baby clothing and clothing accessories	23	33,069	8.1
5	Acorn	Largest supplier	A clothing sourcing company in Hong Kong for an Australian brand retailer, offering 100% cotton-made clothing for newborn babies to 12 months.	Baby clothing and clothing accessories	10	12,444	3.0
Total						<u>321,162</u>	<u>78.4</u>

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For FY2017

Rank	Customer	Rank of our Group as a supplier to the respective customer for baby clothing and clothing accessories in the PRC	Background and market position of customer	Products provided to customer	Number of years of relationship as at the Latest Practicable Date	Approximate amount of revenue (HK\$'000)	Approximate percentage of revenue of our Group (%)
1	Mamas & Papas	Largest supplier	A leading baby product seller headquartered in UK, targeting mid to high-end consumers through retail stores including those established in shopping malls such as Westfield Shopping Centre and franchisees. Awarded "UK's best selling nursery brand" in early 2010's.	Baby clothing and clothing accessories	8	69,758	20.8
2	Next	Second largest supplier	A clothing sourcing company in Hong Kong; subsidiary of a public company listed in the London Stock Exchange. A British brand retailer selling clothing, footwear and home products to mass market.	Baby clothing and clothing accessories	11	65,224	19.4
3	Gerber	Third largest supplier	A leading baby product seller headquartered in US targeting mass market. Major sales channels include Babies"R"us, Buy Buy Baby, KOHL's, Target, Walmart.	Baby clothing and clothing accessories	20	56,667	16.9
4	Impact Imports	Largest supplier	A baby product seller headquartered in US. Selling mainly 0-24 months baby clothing, footwear and accessories, and targeting mid to high-end customers. Major sales channels include Barney, Bloomingdale's, Dillard's, Neiman Marcus.	Baby clothing and clothing accessories	23	42,140	12.5
5	Acorn	Largest supplier	A clothing sourcing company in Hong Kong for an Australian brand retailer, offering 100% cotton-made clothing for newborn babies to 12 months.	Baby clothing and clothing accessories	10	11,682	3.5
Total						245,471	73.1

BUSINESS

For SP2017

Rank	Customer	Background and market position of customer	Products provided to customer	Number of years of relationship as at the Latest Practicable Date	Approximate amount of revenue (HK\$'000)	Approximate percentage of revenue of our Group (%)
1	Mamas & Papas	A leading baby product seller headquartered in UK, targeting mid to high-end consumers through retail stores including those established in shopping malls such as Westfield Shopping Centre and franchisees. Awarded "UK's best selling nursery brand" in early 2010's.	Baby clothing and clothing accessories	8	30,244	25.3
2	Impact Imports	A baby product seller headquartered in US. Selling mainly 0-24 months baby clothing, footwear and accessories, and targeting mid to high-end customers. Major sales channels include Barney, Bloomingdale's, Dillard's, Neiman Marcus.	Baby clothing and clothing accessories	23	20,652	17.3
3	Gerber	A leading baby product seller headquartered in US targeting mass market. Major sales channels include Babies"R"us, Buy Buy Baby, KOHL's, Target, Walmart.	Baby clothing and clothing accessories	20	17,978	15.0
4	Customer F	A manufacturer and marketer of licensed children's sports apparel for all of the major sports leagues and leading colleges in US.	Baby clothing and clothing accessories	1	7,020	5.9
5	Acorn	A clothing sourcing company in Hong Kong for an Australian brand retailer, offering 100% cotton-made clothing for newborn babies to 12 months.	Baby clothing and clothing accessories	10	5,784	4.8
Total					<u>81,678</u>	<u>68.3</u>

As at the Latest Practicable Date, all of our customers are independent third parties. 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.

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Customers concentration

For FY2016, FY2017 and SP2017, our Group's five largest customers aggregately accounted for approximately 78.4%, 73.1% and 68.3% of our total revenue respectively. Our Directors consider that such customer concentration is common for the baby clothing manufacturing industry and our OEM business is sustainable despite the customer concentration due to the following factors:

- (i) the baby clothing market in the globe is dominated by several leading internationally-recognised brands;
- (ii) our five largest customers confirmed that we were one of their major suppliers in the PRC in FY2016 and FY2017. Our Directors believe that we are positioned as one of the leading baby clothing manufacturers due to our safety and quality products and value-added services to our OEM customer; and
- (iii) as at the Latest Practicable Date, except for Customer F with which we have commenced business in SP2017, we have maintained business relationships with our five largest customers for FY2016, FY2017 and SP2017 ranging from eight to 23 years which our Directors believe that we have established a stable and long term business relationship with them.

Decrease in revenue during the Track Record Period

Our revenue decreased by approximately 18.0% from approximately HK\$409.8 million for FY2016 to approximately HK\$335.8 million for FY2017 and decreased by approximately 24.3% from approximately HK\$158.0 million for SP2016 to approximately HK\$119.7 million for SP2017. While the revenue from our OBM business was relatively stable during the Track Record Period, our revenue from our OEM business has declined by approximately 22.3% from approximately HK\$329.4 million for FY2016 to approximately HK\$256.1 million for FY2017 and declined approximately 29.0% from approximately HK\$130.0 million for SP2016 to approximately HK\$92.3 million for SP2017.

Our Directors believe that such decrease was mainly due to reduced sales orders placed by our two largest customers for FY2016, Next in UK and Gerber in US, led by (i) the adoption, adjustment and optimisation of our strategy to sell products to our certain OEM customers, such as Mamas & Papas and Impact Imports, with higher profit margin despite similar baby clothing products but different complexity with relatively smaller order quantities (as compared to those of Next and Gerber), for their more specified needs or higher standards; (ii) depreciation of GBP experienced by Next; and (iii) deteriorated sales performance of local mass markets in UK and US experienced by Next and Gerber, respectively. Details of such reasoning are set out below:

1. The adoption, adjustment and optimisation of our strategy to sell products to our certain OEM customers with higher profit margin

(i) Reducing sales to Next

Next was the largest customer of our Group in FY2016, contributed to approximately 29.3% of our total revenue, or 36.4% of revenue for our OEM business in FY2016. We supplied

BUSINESS

to Next mostly basic baby products (the “**Basic Products**”) which refers to newborn sleepsuits, being one type of baby clothing products, which constituted over 70% of its annual purchase from us in FY2016. Such Basic Products carried one-piece cutting with basic functionality and simple design as compared with the products of other OEM customers of our Group.

Since early 2016, Next has repeatedly requested our Group to reduce the selling price of the Basic Products for its orders. Given the long-term business relationship with Next and the fact that purchase orders from Next were usually bulky, we accepted purchase orders from Next at lower selling price in FY2016. The selling price of the Basic Products to Next had cumulatively decreased by approximately 17.4% during April 2015 to March 2017. Having considered the relatively lower gross profit margin from our sales to Next, we decided to reduce our sales to Next in FY2017.

Our Directors, based on their discussion with Next, expect that the situation as mentioned above will continue and therefore our sales to Next will further decrease by approximately 69.2% in FY2018. Next ceased to be one of the five largest customers in SP2017.

(ii) Reducing sales to Gerber

During the Track Record Period, Gerber mostly purchased clothing accessories, such as plain towels, bibs and mittens, from us, which accounted for approximately 91.8%, 95.5% and 88.7% of our revenue from Gerber. Our Directors consider that clothing accessories are sold in packs and generally contribute larger amount in quantities but lower unit price and gross profit than those of baby clothing.

Based on the understanding of our Directors, Gerber has engaged its own manufacturing plants in Shandong province, the PRC since late 2015 and therefore from time to time requested our Group to accept Gerber’s orders at a more competitive price. Due to the relatively lower gross profit margin generated from our sales to Gerber, we decided to reduce our sales to Gerber.

(iii) Increasing sales to other OEM customers

Based on the understanding and knowledge of our Directors, Mamas & Papas and Impact Imports target at mid to high-end consumers and sell their products at higher price and therefore with higher profitability. Besides, the retail price range of baby clothing sold by Mamas & Papas and Impact Imports is generally higher than the similar types of products sold by Next and Gerber. While Mamas & Papas and Impact Imports also sell newborn sleepsuits, among other baby clothing and clothing accessories, the retail price of their products is generally higher than that of the Basic Products.

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Given that the utilisation rate of our production facilities has already reached approximately 95.7% in FY2016, it would be difficult for our Group to further improve our revenue and profitability by increasing the production volume. We therefore have decided to adjust our strategy to sell our products to our certain OEM customers, such as Mamas & Papas and Impact Imports, that can generate higher gross profit margin despite similar baby clothing products but different complexity with relatively smaller order quantities (as compare to those of Next and Gerber) to enhance our profitability in the long run with our available capacity and resources. We also strategically utilised our production capacity to produce and sell more baby clothing than clothing accessories in order to increase our profitability. The table below sets out the information in relation to our sales to major OEM customers during the Track Record Period:

	FY2016			FY2017			SP2017		
	Revenue <i>HK\$'000</i>	Unit(s) sold <i>'000</i>	Revenue per unit <i>HK\$</i>	Revenue <i>HK\$'000</i>	Unit(s) sold <i>'000</i>	Revenue per unit <i>HK\$</i>	Revenue <i>HK\$'000</i>	Unit(s) sold <i>'000</i>	Revenue per unit <i>HK\$</i>
Next									
- Baby clothing	109,910	4,253	25.8	59,959	2,478	24.2	4,901	220	22.3
- Clothing accessories	10,040	1,048	9.6	5,265	575	9.2	750	98	7.7
	<u>119,950</u>	<u>5,301</u>	22.6	<u>65,224</u>	<u>3,053</u>	21.4	<u>5,651</u>	<u>318</u>	17.8
Gerber									
- Baby clothing	7,715	623	12.4	2,535	218	11.6	2,037	161	12.7
- Clothing accessories	86,401	18,117	4.8	54,132	9,467	5.7	15,941	2,672	6.0
	<u>94,116</u>	<u>18,740</u>	5.0	<u>56,667</u>	<u>9,685</u>	5.9	<u>17,978</u>	<u>2,833</u>	6.3
Mamas & Papas									
- Baby clothing	48,824	1,683	29.0	64,018	2,161	29.6	27,673	908	30.5
- Clothing accessories	12,759	1,177	10.8	5,740	485	11.8	2,571	215	12.0
	<u>61,583</u>	<u>2,860</u>	21.5	<u>69,758</u>	<u>2,646</u>	26.4	<u>30,244</u>	<u>1,123</u>	26.9
Impact Imports									
- Baby clothing	10,624	329	32.3	37,026	1,145	32.3	16,626	505	32.9
- Clothing accessories	22,445	1,095	20.5	5,114	205	24.9	4,026	156	25.8
	<u>33,069</u>	<u>1,424</u>	23.2	<u>42,140</u>	<u>1,350</u>	31.2	<u>20,652</u>	<u>661</u>	31.2

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The table below sets out the gross profit and gross profit margin generated from our major OEM customers during the Track Record Period:

	FY2016		FY2017		SP2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>HK\$'000</i>	<i>(%)</i>	<i>HK\$'000</i>	<i>(%)</i>	<i>HK\$'000</i>	<i>(%)</i>
Next						
- Baby clothing	17,843	16.2	8,494	14.2	582	11.9
- Clothing accessories	<u>1,684</u>	16.8	<u>650</u>	12.4	<u>85</u>	11.3
	<u><u>19,527</u></u>	16.3	<u><u>9,144</u></u>	14.0	<u><u>667</u></u>	11.8
Gerber						
- Baby clothing	1,376	17.8	400	15.8	308	15.1
- Clothing accessories	<u>12,906</u>	14.9	<u>7,926</u>	14.6	<u>2,423</u>	15.2
	<u><u>14,282</u></u>	15.2	<u><u>8,326</u></u>	14.7	<u><u>2,731</u></u>	15.2
Mamas & Papas						
- Baby clothing	16,569	33.9	25,507	39.8	11,042	39.9
- Clothing accessories	<u>3,331</u>	26.1	<u>1,870</u>	32.6	<u>841</u>	32.7
	<u><u>19,900</u></u>	32.3	<u><u>27,377</u></u>	39.2	<u><u>11,883</u></u>	39.3
Impact Imports						
- Baby clothing	3,777	35.6	13,250	35.8	6,216	37.4
- Clothing accessories	<u>2,844</u>	12.7	<u>1,308</u>	25.6	<u>1,092</u>	27.1
	<u><u>6,621</u></u>	20.0	<u><u>14,558</u></u>	34.5	<u><u>7,308</u></u>	35.4

As shown in the table above, the revenue per unit and gross profit margin we generated from Mamas & Papas and Impact Imports were generally higher than those of Next and Gerber. By increasing our sales to Mamas & Papas and Impact Imports, the gross profit margin of baby clothing was improved from approximately 23.2% for FY2016 to approximately 29.7% for FY2017 and further increased to approximately 35.3% for SP2017, while the gross profit margin of clothing accessories was also increased from approximately 16.3% for FY2016 to approximately 18.0% for FY2017, and further increased to approximately 21.5% for SP2017.

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During SP2017, we have obtained purchase orders from a new OEM customer, Customer F, which is a manufacturer and marketer of licensed children's sports apparel for all of the major sports leagues and leading colleges in US, and we sold baby clothing and clothing accessories to them with higher gross profit margin than that of Next and Gerber recorded in FY2016 and FY2017. Customer F is one of the five largest customers in SP2017 and has contributed to us revenue of approximately HK\$7.0 million and gross profit of approximately HK\$1.7 million. The gross profit and gross profit margin with Customer F are set out below:

	SP2017	
	Gross profit	Gross profit
	<i>HK\$'000</i>	<i>%</i>
Customer F		
— Baby clothing	430	26.8
— Clothing accessories	1,262	23.3
	1,692	24.1

As a result of our Group's strategic adjustment as explained above, the utilisation rate of our production facilities decreased from approximately 95.7% for FY2016 to approximately 73.4% for FY2017 and further declined to approximately 70.2% for SP2017. Our Director are of the view that, by reducing order quantities of clothing accessories which are usually with lower profit margin, we are then able to handle more production and sales of baby clothing to enhance our profitability with our limited capacity and resources. The enhancement of profitability has been demonstrated in FY2017 that, where our revenue has dropped from approximately HK\$409.8 million to HK\$335.8 million, our gross profit margin has however increased from approximately 32.0% to 37.6%. Our net profit has improved from approximately HK\$11.2 million for FY2016 to approximately HK\$12.4 million (before deduction of listing expenses of approximately HK\$2.1 million) for FY2017. Compared with SP2016, our OEM revenue in SP2017 has decreased from approximately HK\$130.0 million to approximately HK\$92.3 million, however, our gross profit margin of OEM business has improved from approximately 24.9% to approximately 30.5%.

2. Depreciation of GBP experienced by Next

Following the fall in value of GBP since the vote of UK's intended withdrawal from the European Union in June 2016, it increased import costs to UK companies, and thus reduced their purchasing power. The exchange rate of GBP dropped from approximately HK\$11.5 per GBP as at 1 April 2015 to approximately HK\$9.7 per GBP as at 31 March 2017. Next is an UK based retailer and mainly generated sales from its retail stores in UK; on the other hand, it made procurement from our Group and settled the payment in USD. Our Directors are of the view that the depreciation of GBP caused Next to implement a stricter cost control policy and therefore it tried to negotiate a lower purchase price with our Group. However, as explained in the paragraph headed "The adoption, adjustment and optimisation of our strategy to sell products with higher profit margins" above in this section, we decided to reduce our sales to Next given the lower selling price of the Basic Products and shifted our focus to other major OEM customers.

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Mamas & Papas is also headquartered in UK. Based on the understanding of our Directors, Mamas & Papas' sale channel includes its retail network in UK and franchisees in other jurisdictions; therefore, our Directors believe that Mamas & Papas' currency risk is diversified and it is less sensitive to the depreciation of GBP. Mamas & Papas' brands target mid to high-end customers and it sells its products through retail stores and franchisees at higher retail price; therefore our Directors believe Mamas & Papas is more capable to absorb the increased import costs as a result of the GBP depreciation.

3. Deteriorated sales performance of local mass markets in UK and US experienced by Next and Gerber

Next and Gerber focus on local mass market in UK and US, respectively, and sell their products at affordable price level, and therefore their sales performance is correlated with the sentiment of the local mass market. Although Mamas & Papas and Impact Imports have their headquarters in UK and US, respectively, their clientele is mid to high-end customers who have higher affordability and are less price sensitive. The retail prices of Mamas & Papas' products in UK are in general higher than those of Next, while the retail price of Impact Imports' products in US is higher than those of Gerber. According to the publicly available information of Next, as compared with the 53 weeks ended 30 January 2016, Next experienced a decrease in revenue and operating profit in its retail business by approximately 2.9% and 15.8%, respectively for the 52 weeks ended 28 January 2017. Its retail sales has decreased by approximately HK\$670 million, while the sales of our Group, being Next's second largest supplier in the PRC in FY2016 and FY2017, to Next has reduced by HK\$55 million from FY2016 to FY2017. To the best knowledge of our Directors, the revenue in retail business in US local mass market of Gerber also dropped in 2017. As confirmed by our Directors, Next and Gerber have implemented a stringent cost control policy on product procurement in 2016 and therefore cut down our profit margin of the products we sold to them. We therefore reduced our sales to Next and Gerber and shifted our focus to other OEM customers with our strategy as explained above.

Our Directors further consider that the reasons for the decline of revenue for FY2017 and SP2017 as compared to that of FY2016 and SP2016, respectively, was only directed to Next and Gerber specifically, given the reasons as explained above. Despite the deteriorating sales with Next and Gerber, our Directors consider that the decrease in revenue will have no material adverse impact on the financial performance of our Group and our Group has demonstrated a sustainable business based on the fact that:

1. Our Group's gross profit margin of OEM business had improved from approximately 20.3% for FY2016 to 26.2% for FY2017 and further increased to 30.5% for SP2017;
2. Our Group's net profit (excluding the listing expenses) for FY2017 had increased by approximately 11.0% as compared with that in FY2016;
3. Our Group's overall financial performance did not and will not heavily rely on any single customer; and

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4. the impact of Next and Gerber shall therefore be minimal to our Group's business operations and financial performance considering that the sales to other OEM customers shall have been improved in FY2018 together with additional sales to our new OEM customer, Customer F which has become one of our five largest customers for SP2017.

Our Directors also confirmed that (i) Next and Gerber did not have any material disputes with us; (ii) we had no other issues pertaining the sales to them in light of the decrease in sales to them during the Track Record Period; and (iii) our customers did not cancel their purchase orders in significant amounts during the Track Record Period.

Procurement from Impact Imports and Acorn

During the Track Record Period, Impact Imports and Acorn were also our suppliers. We have procured baby clothing products from Impact Imports and sold them in our retail chain. Based on the packaging standards of Acorn, we were required to purchase packaging materials from Acorn for packaging our products to be sold to Acorn.

Set out below is information in relation to our customers who were also our suppliers during the Track Record Period:

	FY2016		FY2017		SP2017	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Impact Imports						
Revenue generated from Impact Imports and percentage of our total revenue	33,069	8.1	42,140	12.5	20,652	17.3
Amount of purchase of products from Impact Imports and percentage of our cost of sales	0	0	1,404	0.7	117	0.2
Gross profit and gross profit margin of sales with Impact Imports	6,621	20.0	14,558	34.5	7,308	35.4
Acorn						
Revenue generated from Acorn and percentage of our total revenue	12,444	3.0	11,682	3.5	5,784	4.8
Amount of purchase of materials from Acorn and percentage of our cost of sales	125	0.1	148	0.1	44	0.1
Gross profit and gross profit margin of sales with Acorn	3,981	32.0	4,021	34.4	2,061	35.6

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To the best knowledge and belief of our Directors, apart from Impact Imports and Acorn, none of our customers during the Track Record Period was also a supplier of our Group.

OBM customers

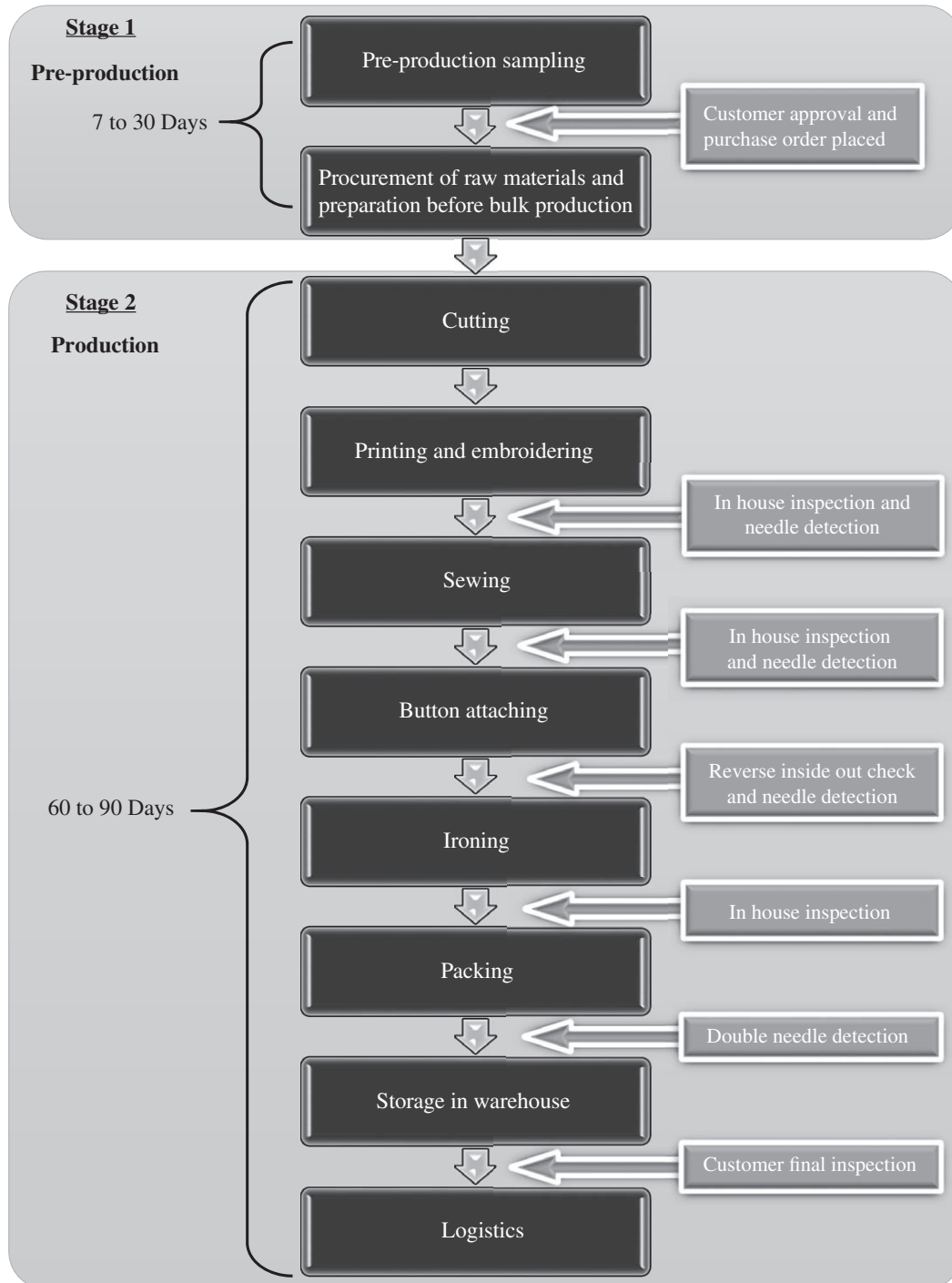
Due to the nature of our retail business, we target a wide range of retail customers, mainly parents and prospective parents. As such, there was no single customer that accounted for more than 5% of our total revenue for each of FY2016, FY2017 and SP2017. Our Directors consider that it is not practicable to identify the five largest retail customers of our Group during the Track Record Period. Our Group had not entered into any long term agreements with our retail customers during the Track Record Period and up to the Latest Practicable Date. Our Directors confirmed that our Group had no material dispute with any of our retail customers during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, we sold our products on wholesale basis to our wholesale customers located in Hong Kong, the PRC, Macao and Taiwan, respectively. Our Directors confirmed that there was no single wholesale customer that accounted for more than 5% of our total revenue for each of FY2016, FY2017 and SP2017 and we had no material dispute with any of our wholesale customers during the Track Record Period and up to the Latest Practicable Date.

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PRODUCTION

During the pre-production stage of new products, we generally take approximately seven to 30 days to obtain our OEM customers' approval on the pre-production samples and procure the required raw materials for production. For existing products or foreseeable repeated purchase orders based on customers' forecast, we might procure and stock up certain level of raw materials in order to shorten the time required prior to bulk production. For a typical production process, it usually takes approximately 60 to 90 days to deliver the finished products to our customers. The diagram below is the flow chart summarising the key workflow of a typical production process of our Group:



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1. Pre-production sampling and purchase order confirmation

Our customers normally provide us design pack containing all details of a production order and request us to produce pre-production samples of the contemplated designs for their comments and approvals. Our Group would formulate a production plan, including budget, timetable, resource allocation arrangement, and revert to our customers with quotation. If the customers accept our quotation, a purchase order containing all details of products (including raw materials, colour, pattern cutting, labels and accessories), production schedule, shipment details and price would be issued to us.

Based on the customers' request, we may hold a pre-production meeting with our customers to review the samples but normally our customers revert their comments through email. After one or more rounds of sample revisions, our customer would give its final approval before the bulk production commences.

2. Procurement of raw materials and preparation before bulk production

Based on the purchase order from our customer, our sales and merchandising team would place procurement orders to our selected suppliers or the suppliers indicated by our customer for purchasing relevant raw materials and accessories. During the Track Record Period, we mainly purchased raw materials and accessories including cotton fabric, thread, buttons, labels, packing bags and hangers for production process. We have a strict quality control on the raw materials. Our quality control team would inspect all cotton fabric delivered to our warehouse, including weight test, laboratory test and colour check. For details of our quality control procedure, please refer to the paragraph headed "Quality control" in this section.

Before the bulk production, our production team would develop cutting control program, printing screen, embroidery computer-aided design program and production slip based on the design pattern of the product, to maximise the efficiency of production with minimum time consumption and raw materials wasted.

After all preparation work is done, our production team would issue a pick-up list to warehouse to retrieve the required raw materials to the workshop. Our production team would unfold rolled cotton fabric and place it into loosening machine to loose packing pressure and leave it idle for at least 24 hours before cutting.

3. Cutting

We would place multiple layers of cotton fabric on top of one another by using fabric spreading machine and cut them to designated size with cutting machine based on the designed cutting control program. The cutting control program would automatically select the most efficient way to cut the cotton fabric in order to minimise material wastage. Our production team would then gather the identical pieces and bind them up with a production slip containing all production procedures afterwards.

4. Printing and embroidering

According to different design patterns, we would send the shaped cotton fabric to printing workshop and/or embroidery workshop.

(i) Printing

Printing can be distinguished by the type of inks to be used, and also by the mode of application, i.e. by hands or by machines.

Our printing procedure comprises of screen printing and rubber printing:

For screen printing, our production team would plait shaped pieces on printing tables and brush them by using the printing screen with designed image and colour of ink approved by our customers in the pre-production stage. After the ink placed on the cotton fabric, we would dry the pieces up by using drying machine or hang and let them dry under room temperature. Based on the complexity and number of colours, we perform the screen printing by manual or printing machines. For a simple image with one to two colour used, we generally print the pieces manually. With the assistant of printing machines, we are able to print a complex image with up to 10 different colours.

For rubber printing, our production team would manually brush the rubber on the pieces by using printing screen with designed image. Due to the time-consuming process for drying out of rubber printing, our printing workshop has installed drying machines on each printing table for rubber printing. We also use the rubber printing as non-slip material on the foot part of baby clothing products.

(ii) Embroidering

Before the embroidery procedure, we would use computer-aided design system to create a programme of technical drawing and embroidery track to be installed in our embroidery machines. The designed programme allows the embroidery machines to stitch out images with certain patterns and colours automatically.

For certain designs that require for embroidering manually, our embroidery workshop has a team of over 30 experienced workers to perform hand embroidery as at the Latest Practicable Date. Depending on the availability of our labour resources, we may subcontract the hand embroidery to our approved subcontractors. For details, please refer to the paragraph headed “Subcontracting” in this section.

After the embroidery procedure, our quality control team would inspect on the after-embroidery products by checking the completeness and irregularity. To ensure the safety of our products, the products would then be checked by needle detection machine.

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5. Sewing

After collecting the printed and embroidered parts, our production team would send them to our sewing workshop. In the sewing workshop, our workers would link up the panels with a smooth finish by using sewing machines. After panels are lined up together, the baby clothing has reached its preliminary form. Labels provided by our customers would then be sewn onto the baby clothing and hangtags attached also with textile details and sales details. After sewing, our quality control team would check on the products, cut the end of the thread at the linking parts and conduct the second needle detection before transfer the product to the next workshop.

6. Button attaching

Upon completion of the sewing procedure, the products would be sent to our last production workshop for button attaching. In this workshop, we generally arrange three workers as a team and they are responsible for marking the attaching points, attaching buttons using the button attaching machine and inspecting the completeness, respectively.

After button attaching process, our quality control team would conduct a reverse-inside-out inspection on the foot sides of baby clothing to make sure that the ends of thread in there have been already cut. They would also conduct the third needle detection to further confirm no metal in our products.

7. Ironing

According to the pressing standards as requested by different customers, some finished baby clothing would be transferred to ironing workshop and ironed manually to stabilise their shapes. We perform the final in-house inspection carefully after ironing and before packing. Any baby clothing with defects are removed from our production line and set aside for mending.

8. Packing

Based on our customers' requirements, we would pack our products with packing bag or hanger carefully to ensure that they are arranged in an orderly fashion. Before we pack the products into carton, we conduct the final needle detection twice and place the checked products in a metal free zone. The product would then be transferred to our warehouse to wait for our customers' inspection.

9. Storage in warehouse

Our customers would send their own quality inspectors to our production plant to conduct a quality inspection and/or designate independent laboratories to us for product testing. Once the finished products meet the satisfaction of our customers, our customers would generally issue us with an inspection report with good standing to indicate that the products are approved for shipment.

10. Logistics

Once our customers approve our finished products, we would arrange the logistic for delivery the packaged products to the loading port or freight forwarder designated by our customers or our warehouse in Hong Kong for our retail business.

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PRODUCTION FACILITIES AND WAREHOUSE

Our production facilities and warehouse are located in the Huangpu Factory and Ancillary Facilities in the PRC. The Huangpu Factory and Ancillary Facilities consist of a total gross floor area of approximately 20,661 sq.m. For details of our properties, please refer to the paragraph headed “Properties” in this section.

For FY2016, FY2017 and SP2017, we acquired new machineries in the total amount of approximately HK\$0.8 million, HK\$1.3 million and HK\$0.1 million, respectively. As at 31 August 2017, our machineries had a total net book value of approximately HK\$4.9 million.

As at 31 August 2017, we had the following major types of machines:

Type of machine	Function	Approximate average years of service	Quantity (units)
Colour digital printing machine	A colour digital printing machine can handle multi-colour products and print highly accurate and detailed patterns.	0.1	1
Eight-colour printing machine	A printing machine can apply eight printing screens simultaneously, which makes easy for multi-colour printing.	2.5	2
Cutting machine	A fabric cutting machine can cut stacked fabric from the spreading table to certain patterns.	15.2	30
Loosening machine	A loosening machine can reduce tension for knitted cotton fabric.	10.2	3
Embroidery machine	An embroidery machine can sew a design onto cotton fabric based on the control of computer system.	10.9	21
Drying machine	A drying machine can cool down the ink and rubber placed on cotton fabric.	2.6	18
Sewing machine	A sewing machine can sew up cotton fabric by needle threading.	13.4	1,058
Button attaching machine	A button attaching machine can attach button on to a garment.	17.3	11
Needle detection machine	A needle detection machine can detect metal chips inside fabric products.	7.5	10

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According to the accounting policy of our Group, the estimated useful life of our machines ranges from approximately three to five years. As at 31 August 2017, the current average age of our Group's major production machines was approximately 13.3 years which has already exceeded their estimated useful life of three to five years.

Our repair and maintenance team carries out regular inspection and maintenance for certain machines on an on-going basis. Our maintenance costs for plant and machinery amounted to approximately RMB0.5 million, RMB0.6 million and RMB0.2 million for FY2016, FY2017 and SP2017, respectively. Machines that are discovered to be malfunctioning would be examined by our repair and maintenance team. We would then decide to repair or dispose of such machines based on their damage level, value and years of service. The value of most of our machines is below RMB20,000, such as our sewing machines. Since the costly maintenance costs as compared to the replacement cost, we normally choose to replace such machines rather than to repair. For the machines with higher value, our repair and maintenance team would inspect them from time to time and replace the damaged parts only. Our Group had not experienced any material disruption to our production in connection with the machines during the Track Record Period and up to the Latest Practicable Date. We 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 paragraph headed "Business strategies and future plans — Upgrading our production facilities and enhancing the production capability through extensive application of RFID technology" in this section.

Production capacity

For illustrative purposes only, the following table sets out our estimated production capacity, estimated production volume and the estimated utilisation rate for FY2016, FY2017 and SP2017 respectively:

	Production capacity during the year/period ('000 units)	Approximate output volume during the year/period ('000 units)	Approximate utilisation rate %
FY2016	24,000	22,959	95.7
FY2017	24,000	17,622	73.4
SP2017	10,000	7,021	70.2

Note:

1. The estimated maximum annual production capacity is calculated based on the estimated number of products produced by each worker at typical product mix between baby clothing and clothing accessories (taking into account the types and complexity level, multiplied by the number of workers, assuming eight hours work per day and 300 working days per calendar year) during the year/period.
2. The approximate output volume refers to the approximate total number of products produced during the year.

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3. The approximate utilisation is derived from dividing the maximum annual production capacity by the approximate output volume. As the 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 change if the underlying assumptions are different.

RESEARCH AND DEVELOPMENT

We place strong emphasis on product development, improvement in products and production process of plants and machinery to cope with the change of customers' requirements. We would work on the technical feasibility of designs provided by our customers to transform an idea into a physical baby clothing. Also, we design our own baby fabric products for retail business. Our research and development team of three members is led by research and development manager who has over 25 years of experience in the clothing industry. We also have a sample development department of over 40 staff in the PRC for sample development.

During the Track Record Period, the research and development costs amounted to approximately HK\$4.4 million, HK\$5.4 million and HK\$2.3 million, respectively (including staff cost of approximately HK\$3.6 million, HK\$4.2 million and HK\$1.8 million, respectively). Our research and development activities include (i) conducting research for culture of local market; and (ii) exchanging market information with OEM customers.

QUALITY CONTROL

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

Product quality

Our product 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 and our internal manner on procurement standards of raw materials. To produce our products with quality, we may also source the raw materials from the suppliers who has obtained specific certificate and/or qualification, such as Supima® and Oeko-Tex® Standard 100. Our quality control team are responsible for inspection on the raw materials and accessories purchased from our suppliers. Based on our internal fabric inspection standard, we would check on the actual length, weight, colour, quality and defect of all cotton fabric delivered to our warehouse.
- **Production** — We established stringent quality management systems in our production process. Each procedure of our production process would be monitored and checked by our quality control team to ensure that the production process conforms to specific quality control requirements. To ensure our products being harmless to babies, we conduct needle defection check four times and make sure to cut the end of thread at the linking parts. During the production cycle, our customers would visit our production site from time to time without notice in advance and inspect the quality of our production procedures and work environment for our workers.

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- **Post-production** — Our quality control team conducts laboratory test on our finished products. Our OEM customers also designate independent laboratories for us to conduct testing for every batch of our products to be delivered to UK and US. Due to the nature of baby clothing, the products would be tested on strength, dimensional stability to washing and dry-cleaning, pH value of acidity and alkalinity, formaldehyde level, lead level and flammability. Our customers would send their own quality inspectors to our production plant to conduct quality inspection before we arrange the shipment to overseas. According to the specific needs of our customers, our products shall meet the quality standards (e.g. Oeko-Tex[®] Standard 100 and Sanitized[®] license standard).
- **Subcontractor** — Our quality control team inspects the quality of the processing work conducted by our subcontractors once those semi-finished products are delivered back to Huangpu Factory before they undergo further processes in our production lines. To ensure the quality of our finished products, we only outsource part of our production process to our subcontractors and it is our staff in Huangpu Factory that assemble those semi-finished products into finished goods.
- **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.

As at the Latest Practicable Date, we had nine quality control staff in our quality control department, where each production line has its own responsible personnel for quality control.

Service quality

For our OBM business, our new sales staffs are required to attend induction training to equip them with adequate product knowledge and skills required for their work. We normally arrange mystery customers to our retail stores for the purpose of understanding the level of customer service and product knowledge of our sales staff.

PRODUCT RETURNS, WARRANTY AND LIABILITY

We expose to potential product liability claim. Under general principles of product liability law, liability to a consumer for injuries alleged to be caused by a purchased product should attach to each party in the chain of sale, i.e. from the manufacturer to the retailer and everyone in between. There is a possibility that we may be subject to potential products liability claim in respect of injuries alleged to be caused by our product purchased by the end customer.

As a general policy, if we receive a defective product complaint from our OEM customers or consumers, our Group would require return of products and conduct an investigation to ascertain the cause of the defect. If we found any defect on the returned products, we would prepare a correct action plan for preventing the defect in the future. During the Track Record Period and up to the Latest

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Practicable Date, we did not receive any material complaints in relation to our products. Our Directors were not aware of any material complaints or claims relating to product quality from our Group and any material dispute with our OEM customers, which reflected well on our quality control process and reinforced our reputation in the market.

Our sales and merchandising department are dedicated to provide after-sales service to our OEM customers. Our Group has no warranty policy but our customers are allowed to fully return their orders immediately when they received the delivery should there be any defects. However, we would liaise with our OEM customers to find out the defects and agree with a mutually acceptable solution. Our Group will then amend if there are major defects as compared to our sample products. Any delivery not immediately returned will be treated as accepted by our OEM customers. Our Directors confirmed that our Group had not experienced any cancellation of orders, return of sales or material default by our OEM customers during the Track Record Period and up to the Latest Practicable Date.

For our OBM business, we have a set of policies in relation to product returns. In general, all retail customers are entitled to exchange or return defective products within 14 days after purchased. All products must not be used or washed and the packaging must be undamaged. We only accept the change of products once and the products sold at 30% off or above could not be changed. Provided that the products question is defective at the time of sale, all costs and expenses associated with the exchange of products shall be borne by us.

Our Directors confirm that there were no material product recalls, major complaints against our products, or any material amount of sales return during the Track Record Period and up to the Latest Practicable Date.

RAW MATERIALS AND INVENTORY CONTROL

We use a variety of raw materials and accessories in our manufacturing process. We source our key raw materials of cotton fabric and button from our suppliers mainly located in the PRC. The table below shows our approximate purchase amount of cotton fabric and button and their respective approximate percentage to our total purchases of raw materials and accessories from our suppliers during the Track Record Period:

	FY2016		FY2017		SP2016		SP2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>							
Cotton fabric	92,991	74.7	67,151	73.2	29,264	73.1	25,288	75.6
Button	10,515	8.4	6,278	6.8	2,317	5.8	1,433	4.3
Others ^(Note)	21,061	16.9	18,252	20.0	8,470	21.1	6,749	20.1
Total	<u>124,567</u>	<u>100</u>	<u>91,681</u>	<u>100</u>	<u>40,051</u>	<u>100</u>	<u>33,470</u>	<u>100</u>

Note: Others raw materials include thread, label, packaging materials.

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For illustrative purpose, during the Track Record Period, the average unit cost of materials of cotton fabric and button is set out below:

	FY2016	FY2017	SP2017
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Cotton fabric (per pound)	30	28	29
Button (per 1,000 pieces)	210	172	173

Cotton fabric is the main raw material for our Group's production and represent a substantial portion of our cost of sales. For FY2016, FY2017 and SP2017, we procured cotton fabric of approximately HK\$93.0 million, HK\$67.2 million and HK\$25.3 million, respectively, representing approximately 74.7%, 73.2% and 75.6% of our total purchases of raw materials and accessories. In accordance with our pricing policy, we may pass the increase in cost of raw materials to our customers where possible by charging on a cost-plus basis. During the Track Record Period, we did not experience any material fluctuation on the cost of raw materials. For details of sensitivity analysis on cost of raw materials, please refer to the section headed "Financial information — Sensitivity analysis — Material costs" in this prospectus.

Inventory control

Our inventories include raw materials, work in progress and finished goods. Set out below is a breakdown of our inventories as at 31 March 2016, 31 March 2017 and 31 August 2017:

	As at 31 March		As at 31 August
	2016	2017	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	24,632	20,527	21,431
Work in progress	23,016	12,598	11,398
Finished goods	19,830	18,015	18,351
Total	67,478	51,140	51,180

To avoid excessive procurement and wastage, we generally source raw materials when our customers placed their purchase orders or when we foresee customers' repeated orders. We prefer to procure raw materials in bulk and it allows us to negotiate with a better price from our suppliers. For some unutilised or leftover raw materials such as cotton fabric and button, given that they are durable in nature we can utilise them after long period of storage. In particular, cotton fabric can be returned to our Group's supplier for re-processing and re-processed cotton fabric can serve similar function and at similar quality. We mainly procure the raw materials and accessories from the suppliers located in Guangdong province, the PRC to minimise the delivery time and the items we have ordered are usually able to be delivered to us within 30 days. Our inventories are stored in the warehouse of the Ancillary Facilities.

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As at 31 March 2016, 31 March 2017 and 31 August 2017, the total value of our inventory were approximately HK\$67.5 million, HK\$51.1 million and HK\$51.2 million, respectively. Our cost of inventories recognised as an expense includes an allowance of approximately HK\$195,000 in respect of inventories obsolescence during FY2016.

For FY2016, FY2017 and SP2017, our inventory turnover days were 88.4 days, 89.0 days and 113.4 days, respectively. For details of inventory analysis, please refer to the section headed “Financial information — Inventories” in this prospectus. Our Directors, having considered the nature of the raw materials and the likelihood to utilise the raw materials inventory, are satisfied that, save as disclosed above, there was no obsolete stock as at the respective year/period end date.

We have adopted warehouse management system to facilitate our inventory control. With the support of warehouse management system, an enormous amount of information is collected to our warehouse, production department and procurement department, including names of suppliers, quantities and specifications of materials, dates of production, names of customers and the relevant purchase orders. Once raw materials passed our quality inspection, our warehouse staff would attach a bar code on the materials. After we scan the bar code, the information of the materials would then be saved to our system. By searching the bar code, our warehouse staff could track the location of the raw materials stored when our production team places a pick-up list to request for the raw materials. According to our inventory control procedures, our procurement team monitors storage of raw materials and places procurement orders to our suppliers when the stored raw materials are not enough for our production. Our warehouse management team monitors slow-moving raw materials and reports to the management for those remain unused over one year.

Production of our goods are carried out in accordance with the purchase orders of our OEM customers and stock level of our Hong Kong warehouse. The finished goods for OEM customers are then delivered based on the planned delivery schedule which is normally within 90 to 120 days from the placing of purchase orders. For OBM business, the finished goods are delivered to our warehouse in Hong Kong for onwards distribution to various retail premises. The warehouse management team and purchasing team will monitor the stock level. For finished goods aged over three years, our Directors will be informed and decision will be made as to the way of disposal.

For our retail business, we leased a warehouse located in Kwai Chung, Hong Kong to store our products for retail business. Our self-operated retail stores and department store counters have their own storerooms to keep inventory at a daily operation level. We monitor the inventory levels of each retail store through the point-of-sales system. A report on the sales volume of each of our retail stores and department store counters is produced every day. Based on the information, our staff of retail stores place delivery order to our warehouse officers for filling the products.

To ensure the accuracy and completeness of stock-in and stock-out record of the inventories, we carry out physical inventory counts periodically. We have also adopted several measures at our warehouses, including installation of surveillance camera, pest control and fire safety measures, to ensure the quality and safeguard of our inventories.

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OUR SUPPLIERS AND SUBCONTRACTORS

In our production process, we may purchase materials and/or services from suppliers and subcontractors.

For suppliers, we normally purchase raw materials and accessories for our production of baby fabric products. We also procure complementary third party brand products.

For subcontractors, we may outsource certain part of our production process to subcontractors due to the special production technique required by our customers and the availability of our own labour resources.

Characteristics of our suppliers and subcontractors

During the Track Record Period, we engaged not fewer than 80 suppliers and not fewer than five subcontractors.

The primary raw materials used in our production are cotton fabric and button, and we also procure various raw materials that we do not produce such as thread, label and packaging materials in order to provide a one-stop production solution to our customers.

Depending on the special production technique required by our customers and the availability of our own labour resources, we generally outsource the certain procedures, such as printing and embroidering, to our subcontractors. For ease of monitoring and management, we mainly engage the manufacturers with proximity to Huangpu Factory.

Salient terms of a typical purchase transaction

Our Group has not entered into long-term contracts with any of our suppliers or subcontractors during the Track Record Period. Instead, we would issue a procurement order to the supplier or subcontractor in a typical purchase transaction for the procurement of raw materials, accessories or services. A typical procurement order contains the following salient terms:

(i) Product description:

A brief description of the products, including technical specification of raw materials and design, main material required and size of accessories.

(ii) Order details:

The quantity, unit price and total amount are contained.

(iii) Payment terms:

Payment is normally settled by cheque or bank transfer and there is usually a credit period of 30 to 60 days.

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(iv) *Delivery details:*

We generally require our suppliers to deliver the goods to our Huangpu Factory. The transportation fee is normally covered by our suppliers.

Pursuant to the purchase order, our suppliers shall be responsible for all claims arising on account of inferior quality and/or other non-conformities with the specifications.

Location of suppliers

For FY2016, FY2017 and SP2017, our Group purchased raw materials and accessories from our approved suppliers, all of which were located in the PRC and Hong Kong. We also procured complementary third party brand products mainly from Hong Kong and overseas suppliers. The table below sets out a breakdown of our Group's purchases by suppliers' locations during the Track Record Period:

	FY2016		FY2017		SP2016		SP2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	<i>(unaudited)</i>							
PRC	121,418	68.4	89,229	89.1	38,791	83.8	33,004	92.1
Hong Kong	56,105	31.6	8,862	8.8	6,214	13.4	2,531	7.1
Others ^(Note)	—	—	2,069	2.1	1,308	2.8	303	0.8
Total	177,523	100	100,160	100	46,313	100	35,838	100

Note: Others mainly include US, New Zealand and Thailand.

Selection of suppliers

We normally select our suppliers based on the quality of raw materials and products supplied, pricing, payment terms, delivery, business relationship and reputation. According to our customers' instruction, one or more suppliers may be specifically appointed by our customers for a particular production order. Our procurement department would generally conduct a quality assessment for new suppliers and an annual evaluation for key existing suppliers. After the proposed supplier is approved, we will add the supplier to the approved supplier list of our Group, and only those suppliers from our approved supplier list will be placed procurement orders by us. The approved supplier list of our Group is reviewed on annual basis for their performance in terms of product and service quality.

Payment terms and trade payables

Our procurement team will issue procurement orders to the selected suppliers when we make purchases. In general, the credit terms granted by our suppliers are ranging from 30 to 60 days upon the invoice date of the relevant purchases. We typically settle our trade payables by bank transfers.

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Five largest suppliers

We have maintained a stable relationship with our suppliers (including our subcontractors) during the Track Record Period. As at the Latest Practicable Date, we have business relationships ranging from five to 19 years with our five largest suppliers for FY2016, FY2017 and SP2017. We consider that it is not difficult to replace any of our suppliers in the market with comparable quality and prices. Our Directors confirmed that each of our five largest suppliers is an independent third party and none of them is a customer of our Group.

During the Track Record Period, the total purchase of materials and services (including subcontracting service) from our Group's largest supplier amounted to approximately 11.4%, 10.7% and 14.8% of our Group's total cost of sales, respectively, while the total purchase of materials and services (including subcontracting service) from our Group's five largest suppliers amounted to approximately 40.0%, 30.0% and 34.8% of our Group's total cost of sales, respectively.

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

For FY2016

Rank	Supplier	Background of the supplier	Main products/ services provided to our Group	Number of years of relationship as at the Latest Practicable Date	Approximate amount of purchase of materials and services (including subcontracting service) <i>(HK\$'000)</i>	Approximate percentage of cost of sales of our Group <i>(%)</i>
1	Dongguan Wealthy Step Textile Company Limited ^(Note)	A fabric trading company located in the PRC	Fabric	10	31,729	11.4
2	Guangzhou Yongxingbao Garment Company Limited ^(Note)	A garment manufacturing company located in the PRC	Baby clothing and clothing accessories	17	26,383	9.5
3	Zhongshan Lida Knitting Garment Factory ^(Note)	A fabric manufacturing company located in the PRC	Fabric	5	25,441	9.1
4	Zhaoqing Junxing Fabric Company Limited ^(Note)	A fabric manufacturing company located in the PRC	Fabric	5	17,036	6.1
5	Mastership Fashion Accessory Manufacture Limited	A clothing accessories processing company located in Hong Kong	Clothing accessories	14	10,798	3.9
Total					111,387	40.0

Note: For identification only

BUSINESS

For FY2017

Rank	Supplier	Background of the supplier	Main products/ services provided to our Group	Number of years of relationship as at the Latest Practicable Date	Approximate amount of purchase of materials and services (including subcontracting service) (HK\$'000)	Approximate percentage of cost of sales of our Group (%)
1	Dongguan Wealthy Step Textile Company Limited ^(Note)	A fabric trading company located in the PRC	Fabric	10	22,348	10.7
2	Zhongshan Lida Knitting Garment Factory ^(Note)	A fabric manufacturing company located in the PRC	Fabric	5	18,217	8.7
3	Zhaoqing Junxing Fabric Company Limited ^(Note)	A fabric manufacturing company located in the PRC	Fabric	5	8,555	4.1
4	Guangzhou Genqi Trading Company Limited ^(Note)	A fabric trading company located in the PRC	Fabric	19	8,273	3.9
5	Zhongshan Prym Fashion Button Company Limited ^(Note)	A button manufacturing company located in the PRC	Button	10	5,499	2.6
				Total	<u>62,892</u>	<u>30.0</u>

Note: For identification only

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For SP2017

Rank	Supplier	Background of supplier	Main products/ services provided to our Group	Number of years of relationship as at the Latest Practicable Date	Approximate amount of purchase of materials and services (including subcontracting service) (HK\$'000)	Approximate percentage of cost of sales of our Group (%)
1	Dongguan Wealthy Step Textile Company Limited <i>(Note)</i>	A fabric trading company located in the PRC	Fabric	10	10,222	14.8
2	Zhongshan Lida Knitting Garment Factory <i>(Note)</i>	A fabric manufacturing company located in the PRC	Fabric	5	7,640	11.1
3	Guangzhou Genqi Trading Company Limited <i>(Note)</i>	A fabric trading company located in the PRC	Fabric	19	3,204	4.7
4	Zhaoqing Junxing Fabric Company Limited <i>(Note)</i>	A fabric manufacturing company located in the PRC	Fabric	5	1,820	2.6
5	Zhongshan Prym Fashion Button Company Limited <i>(Note)</i>	A button manufacturing company located in the PRC	Button	10	1,121	1.6
Total					24,007	34.8

Note: For identification only

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. To the best knowledge and belief our Directors, save as disclosed above, none of our suppliers (including our subcontractors) during the Track Record Period was also a customer of our Group. During the Track Record Period, we had not received any material claims or complaints by our customers in respect of the quality of raw materials purchased from our suppliers.

Subcontracting

Due to the special production technique required by our customers and the availability of our own labour resources, we may outsource certain part of our production process to subcontractors to achieve our production optimisation. The certain procedures outsourced to subcontractors are generally less reliance on machinery but higher demand on labour resources, such as printing and embroidering.

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The commercial arrangements between our Group and our subcontractors depend on each processing order taking into account factors such as quantity, pricing, service quality, proximity of their factories to our production facilities, ability to complete the production procedures in a timely manner and business relationship. Before we engage subcontractors, we would seek our customers' approval.

In general, we make processing order on order-by-order basis. Upon completion of the subcontracting process by the subcontractors, our quality control staff will inspect the semi-finished products delivered by our subcontractors to ensure that they meet the required quality standard. Further, to ensure the quality of our finished products, we only outsource part of our production process to our subcontractors and it is our staff in Huangpu Factory to assemble the semi-finished products into finished goods. Our Directors believe that the subcontractors engaged by us are qualified subcontractors in our approved subcontractor list that the quality of their services could be assured.

For FY2016, FY2017 and SP2017, the total amount paid to our subcontractors were approximately HK\$22.2 million, HK\$16.3 million and HK\$1.6 million, respectively, representing approximately 8.0%, 7.8% and 2.3% respectively of our cost of sales.

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 subcontractors during the Track Record Period.

In a typical subcontracting transaction, we issue a processing order to our subcontractor with the following salient terms:

(i) Processing description:

A brief description of the processing procedure is contained.

(ii) Order details:

The quantity of products to be processed, unit price and the total amount are contained.

(iii) Payment terms:

Payment is normally settled by cheque or bank transfer and there is usually a credit period of 30 to 60 days.

(iv) Delivery details:

The processed products are usually delivered at the cost of the subcontractors to the Huangpu Factory.

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COMPETITION

The baby clothing manufacturing market in the PRC is highly fragmented with a number of manufacturers. According to the F&S Report, there were approximately 10,000 manufacturers engaged in production of baby and child clothing and accessories in the PRC. The entry barriers for the PRC baby clothing manufacturing market are (i) industry know-how; (ii) relationship with major customers; and (iii) substantial capital investment. We are regarded as one of the major suppliers in the PRC by our major customers in UK and US in 2016. In particular, in terms export value from the PRC to UK and US for baby clothing products, our Group has a market share of approximately 12.6% and 1.6% respectively in 2016. Our Directors consider that we have strong presence in the baby clothing manufacturing industry in the PRC.

According to the F&S Report, there were approximately 300 to 500 establishments in the baby clothing, footwear and accessories market in Hong Kong. We contributed approximately 7.0% of market share in terms of retail sales revenue of baby clothing in Hong Kong in 2016. We believe that our Group is well-positioned to capture the growing demand for baby clothing retail industry in Hong Kong based on our high quality and safety standard, research and development and product design capabilities, well-established local presence and extensive experience. For details, please refer to the section headed “Industry overview” in this prospectus.

AWARDS AND CERTIFICATIONS

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

Awards and certifications	Valid period	Year of award	Issuing institution/ authority	Group company
Declaration of import and export goods by consignee and consignor	Valid since 3 March 2017	2000	Customs of the People’s Republic of China	Mei Li Hua
Self-examination and inspection enterprises registered certificate	Valid since 20 May 2013	2013	General Administration of Quality Supervision, Inspection and Quarantine of the PRC	Mei Li Hua
Sanitized® license partner certificate	9 March 2017 to 9 March 2018	2014	Sanitized AG	Babies Trendyland
AEO certificate	Valid since 31 August 2015	2014	Gongbei Customs of the PRC	Mei Li Hua

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Awards and certifications	Valid period	Year of award	Issuing institution/ authority	Group company
Certificate of joint validation	Valid since 6 February 2015	2015	General Administration of China Customs and US Customs and Border Protections	Mei Li Hua
Guangdong province pollutant discharge permit	7 September 2015 to 6 September 2018	2015	Bureau of Environmental Protection of Zhongshan City	Mei Li Hua
Supima membership	1 January 2018 to 31 December 2018	2010	Supima	Mantex Supplies
Oeko-Tex [®] Standard 100	25 October 2017 to 15 October 2018	2016	Oeko-Tex [®]	Mei Li Hua
Oeko-Tex [®] Standard 100	27 July 2017 to 30 June 2018	2016	Oeko-Tex [®]	Mantex Supplies
SMETA	18 October 2017 to 17 October 2018	2017	SEDEX	Mei Li Hua

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 details, 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 ink and disposed cotton fabric. Most of the used cotton fabric can be recycled and we have developed a cutting control program to minimise the waste in the production. Ink would be collected by an independent waste collector. As at the Latest Practicable Date, we had the waste discharge approval permit of Guangdong Province, the PRC for disposing ink and thread with a term of three years commencing from 7 September 2015 to 6 September 2018.

For FY2016, FY2017 and SP2017, we incurred approximately RMB41,000, RMB82,000 and RMB32,000, respectively, for environment compliance matters.

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Health and work safety

We carry out our production in the PRC. We provide internal guidelines on work safety for our employees. We also make necessary arrangements to ensure safety and health.

During the Track Record Period, we did not breach any work safety related laws and regulations in the PRC. During the Track Record Period and up to the Latest Practicable Date, we did not receive any material claims of work-related injuries of our employees or ex-employees.

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 recommendations by the Internal Control Adviser

In preparation for the Listing, in November 2016, we engaged an independent internal control adviser (the “Internal Control Adviser”) to perform a review of the procedure, system and control (including accounting and management systems) of our Group.

The Internal Control Adviser performed first review from November 2016 to February 2017 and follow-up review on the status of internal control improvement measures from May 2017 to June 2017. Our Directors concur that our Group has properly adopted, or expect to adopt before the Listing, the following internal control improvement measures as recommended by our Internal Control Adviser:

- (i) to ensure that our Group 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 Group, our Group 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 our Directors 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 Group upon its expiry;

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- (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 appoint an independent internal control adviser to perform regular reviews of our internal control system and such appointment will be reviewed annually; and
- (v) 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.

Our Directors also are of the view that our internal control systems have been properly implemented and the internal control measures taken or to be taken are adequate and effective.

HEDGING

Our Group is exposed to currency risks for transactions conducted in currency other than HKD, our Group's financial reporting currency. During the Trade Record Period, most of our Group's sales were settled in USD and HKD, whilst most of cost of sales were settled in RMB and HKD. As at the Latest Practicable Date, our Group has not entered into any hedging transactions against currency risks or interest rate risks. While our Group may seek to enter into hedging transactions in the future, the availability and effectiveness of currency or interest rate hedging transactions may be limited, and our Group may not be able to hedge its exposure to currency risks or interest rate risks successfully, or at all.

BUSINESS

EMPLOYEES

As at the Latest Practicable Date, we had a total of 880 full-time employees in the PRC and 160 full-time employees and two part-time employees in Hong Kong. The following table sets out a breakdown of our employees by locations and by functions as at the Latest Practicable Date:

	As at the Latest Practicable Date
Hong Kong	
Directors	4
Management office	9
Administration	6
Design	5
Factory management	6
Finance	5
Human resources	3
Information technology	3
Inventory management	11
Production	11
Purchasing (OEM)	9
Purchasing (OBM)	5
Research and development	3
Sale and marketing	30
Store staff	<u>52</u>
Sub-total	162
PRC	
Production workers	732
Administration	43
Finance	11
Human resources	5
Information technology	2
Inventory management	33
Sample development	45
Quality control	<u>9</u>
Sub-total	880
Total	<u><u>1,042</u></u>

BUSINESS

Training and recruitment policies

For our production workers, we provide one to three months of on-the-job training and training programmes to them to enhance their technical and product knowledge including safety standards, quality control and job related skills. 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.

Our sales department is responsible for the overall planning and implementation of the training programmes for our retail sales staffs. We generally provide training in relation to our business model and products to the new recruits. Our new recruits are generally subject to a probationary period of approximately three months. If their performance is to the satisfaction of their respective branch managers, they will be confirmed as full-time employees.

Directors and staff remuneration

Our Group incurred staff costs (including directors' remuneration) of approximately HK\$130.1 million, HK\$131.2 million and HK\$51.4 million for FY2016, FY2017 and SP2017, 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.

The salary level of the production workers has been steadily increasing in recent years owing to changes in labour law and the local labour market trends. We also provide a performance bonus and attendance bonus to the production workers with great performance and attendance record.

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 and medical insurance for all of our employees. We also participate in the Mandatory 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. As required under the ordinance, 5% of our employees' relevant income per month is contributed to the provident fund, subject to a maximum of HK\$1,500 per employee per month.

BUSINESS

Employee relationship

Our Group believes that we have maintained good 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. Our employees in the PRC have established a labour union.

Share Option Scheme

Our Group has conditionally adopted the Share Option Scheme under which 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 the section headed “D. Share Option Scheme” in Appendix IV to this prospectus.

PROPERTIES

Lease premises

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

Premises	Usage	Key terms of the tenancy	Duration of lease	Approximate gross floor area ⁽¹⁾
<i>PRC</i>				
Industrial Park, Huangpu County, Zhongshan City, Guangdong Province, the PRC ⁽²⁾	Printing and embroidering workshops, warehouse and canteen	Annual rental of RMB278,579 from 15 March 2013 to 14 March 2018	5 years	11,901 sq.m.
Room 804, Block 2, Mingyuehaoting, Huangpu County, Zhongshan City, Guangdong Province, the PRC ⁽²⁾	Staff dormitory	Monthly rental of RMB2,400 from 10 March 2017 to 9 March 2018	1 year	136.17 sq.m.
<i>Hong Kong</i>				
East Wing, 5th Floor, 822 Lai Chi Kok Road, Cheung Sha Wan, Kowloon ⁽²⁾	Ancillary office and warehouse	Monthly rental of HK\$100,830 from 1 February 2015 to 31 January 2016	3 years	7,482 sq.ft.
		Monthly rental of HK\$107,440 from 1 February 2016 to 31 January 2017		
		Monthly rental of HK\$119,670 from 1 February 2017 to 31 January 2018		

BUSINESS

Premises	Usage	Key terms of the tenancy	Duration of lease	Approximate gross floor area ⁽¹⁾
West Wing on 5/F and The Entire 7/F of 822 Lai Chi Kok Road, Cheung Sha Wan, Kowloon ⁽²⁾⁽³⁾	Ancillary office, workshop and storeroom	Monthly rental of HK\$204,170 with tenancy period from 1 February 2015 to 31 January 2016	3 years	15,150 sq.ft.
		Monthly rental of HK\$217,560 with tenancy period from 1 February 2016 to 31 January 2017		
		Monthly rental of HK\$242,330 with tenancy period from 1 February 2017 to 31 January 2018		
Unit 1, Ground Floor, 822 Lai Chi Kok Road, Cheung Sha Wan, Kowloon ⁽²⁾	Showroom and storeroom	Monthly rental of HK\$110,000 with tenancy period from 1 April 2015 to 31 January 2016	2 years, 10 months	4,544 sq.ft.
		Monthly rental of HK\$120,000 with tenancy period from 1 February 2016 to 31 January 2017		
		Monthly rental of HK\$130,000 with tenancy period from 1 February 2017 to 31 January 2018		
Factory Flat No.3 on 2/F of Yam Hop Hing Industrial Building, 40-44 Kwai Wing Road, Kwai Chung, New Territories	Warehouse	Monthly rental of HK\$93,520 with tenancy period from 8 May 2017 to 7 May 2022	5 years	9,676 sq.ft.
Shop No. UG42, Floor UG, Olympian City 3, 1 Hoi Wang Road, Kowloon ⁽²⁾	Retail store	Monthly rental of HK\$28,500, and the amount by which 12% of monthly gross sales turnover exceeds monthly rental with tenancy period from 24 March 2015 to 23 March 2016;	3 years	160 sq.ft.
		Monthly rental of HK\$29,000, and the amount by which 12% of monthly gross sales turnover exceeds monthly rental with tenancy period from 24 March 2016 to 23 March 2017		
		Monthly rental of HK\$29,500, and the amount by which 12% of monthly gross sales turnover exceeds monthly rental with tenancy period from 24 March 2017 to 23 March 2018		

BUSINESS

Premises	Usage	Key terms of the tenancy	Duration of lease	Approximate gross floor area ⁽¹⁾
Shop No. F21, 1st Floor, Kornhill Plaza, 1 Kornhill Road, Hong Kong ⁽²⁾	Retail store	Monthly rental of HK\$54,000 or 15% of monthly gross receipts, whichever is higher with tenancy period from 1 April 2015 to 31 March 2016	3 years	400 sq.ft.
		Monthly rental of HK\$58,000 and 15% of monthly gross receipts, whichever is higher with tenancy period from 1 April 2016 to 31 March 2017		
		Monthly rental of HK\$62,000 or 15% of monthly gross receipts, whichever is higher with tenancy period from 1 April 2017 to 31 March 2018		
Shop No. 124, 1/F, Commercial/Car Park Block (also known as Fu Tung Plaza), Fu Tung Estate, 6 Fu Tung Street, Tung Chung, New Territories	Retail store	Monthly rental of HK\$30,000 or 15% of monthly gross receipts, whichever is higher with tenancy period from 3 May 2016 to 2 May 2018	2 years	227 sq.ft.
Shop 108 on Level one of the Arcade, Cyberport, No.100 Cyberport Road, Pokfulam, Hong Kong	Retail store	Monthly rental of HK\$1.0 and 6% of gross takings with tenancy period from 1 August 2016 to 31 July 2018	2 years	1,876 sq.ft.
Shop No. 1054, Level 1, Discovery Park Shopping Centre, New Territories	Retail store	Monthly rental of HK\$37,490 or 14% of monthly gross receipts, whichever is higher with tenancy period from 1 September 2015 to 31 August 2016	3 years	326 sq.ft.
		Monthly rental of HK\$40,750 or 14% of monthly gross receipts, whichever is higher with tenancy period from 1 September 2016 to 31 August 2017		
		Monthly rental of HK\$44,010 or 14% of monthly gross receipts, whichever is higher with tenancy period from 1 September 2017 to 31 August 2018		

BUSINESS

Premises	Usage	Key terms of the tenancy	Duration of lease	Approximate gross floor area ⁽¹⁾
Shop No.2197G and 2197H on the 2/F of Commercial Accommodation of Tuen Mun Town Plaza at 1 Tuen Shing Street, Tuen Mun, N.T., HK erected on Tuen Mun Town Lot No. 209, New Territories	Retail store	Monthly rental of HK\$160,000, and the amount by which 12% of monthly gross sales turnover exceeds monthly rental with tenancy period from 1 April 2016 to 31 March 2017	3 years	1,296 sq.ft.
		Monthly rental of HK\$168,000, and the amount by which 12% of monthly gross sales turnover exceeds monthly rental with tenancy period from 1 April 2017 to 31 March 2018		
		Monthly rental of HK\$177,000, and the amount by which 12% of monthly gross sales turnover exceeds monthly rental with tenancy period from 1 April 2018 to 31 March 2019		
Shop No.361 on Level 3 of the Commercial Accommodation, 193 Prince Edward Road West, Mongkok, Kowloon, Hong Kong erected on Kowloon Inland Lot No. 10991, Kowloon	Retail store	Monthly rental of HK\$112,525, and the amount by which 15% of monthly gross receipts exceed monthly rental with tenancy period from 9 May 2016 to 8 May 2017	3 years	643 sq.ft.
		Monthly rental of HK\$115,740, and the amount by which 15% of monthly gross receipts exceed monthly rental with tenancy period from 9 May 2017 to 8 May 2018		
		Monthly rental of HK\$118,955, and the amount by which 15% of monthly gross receipts exceed monthly rental with tenancy period from 9 May 2018 to 8 May 2019		
Shop B41a in the First Basement of the Commercial Podium of Site 11 of Whampoa Garden, Kowloon	Retail store	Monthly rental of HK\$50,000, and the amount by which 12% of monthly gross receipts exceed monthly rental with tenancy period from 15 June 2016 to 14 June 2017	3 years	468 sq.ft.
		Monthly rental of HK\$52,000, and the amount by which 12% of monthly gross receipts exceed monthly rental with tenancy period from 15 June 2017 to 14 June 2018		
		Monthly rental of HK\$54,000, and the amount by which 12% of monthly gross receipts exceed monthly rental with tenancy period from 15 June 2018 to 14 June 2019		

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Premises	Usage	Key terms of the tenancy	Duration of lease	Approximate gross floor area ⁽¹⁾
Shop No. 2035 on Level 2 of the Commercial Accommodation of the development at 9 Long Yat Road, Yuen Long, New Territories, Hong Kong	Retail store	Monthly rental of HK\$92,140, and the amount by which 15% of monthly gross receipts exceeds monthly rental with tenancy period from 21 June 2017 to 20 June 2018	3 years	1,084 sq.ft.
		Monthly rental of HK\$97,560, and the amount by which 15% of monthly gross receipts exceeds monthly rental with tenancy period from 21 June 2018 to 20 June 2019		
		Monthly rental of HK\$102,980, and the amount by which 15% of monthly gross receipts exceeds monthly rental with tenancy period from 21 June 2019 to 20 June 2020		
Shop No.222 on 2/F of Windsor House, 311 Gloucester Road, Hong Kong	Retail store	Monthly rental of HK\$118,000, and the amount by which 15% of gross revenue exceeds monthly rental with tenancy period from 3 May 2016 to 2 May 2017	5 years	1,058 sq.ft.
		Monthly rental of HK\$128,000, and the amount by which 15% of gross revenue exceeds monthly rental with tenancy period from 3 May 2017 to 2 May 2018		
		Monthly rental of HK\$138,000, and the amount by which 15% of gross revenue exceeds monthly rental with tenancy period from 3 May 2018 to 2 May 2019		
		Monthly rental of HK\$148,000, and the amount by which 15% of gross revenue exceeds monthly rental with tenancy period from 3 May 2019 to 2 May 2020		
		Monthly rental of HK\$168,000, and the amount by which 15% of gross revenue exceeds monthly rental with tenancy period from 3 May 2020 to 2 May 2021		
Parking Spaces Nos. 1-7 on Mezzanine Floor of 822 Lai Chi Kok Road, Kowloon ⁽²⁾	Car parking	Monthly rental of HK\$12,600 with tenancy period from 1 February 2015 to 31 January 2018	3 years	—
Parking Spaces Nos.8, 9,10 on Mezzanine Floor of 822 Lai Chi Kok Road, Kowloon ⁽²⁾	Car parking	Monthly rental of HK\$1.0 with tenancy period from 1 August 2016 to 31 January 2018	1 year, 6 months	—

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Premises	Usage	Key terms of the tenancy	Duration of lease	Approximate gross floor area ⁽¹⁾
Parking Spaces Nos.11,13,14 and 15 on Mezzanine Floor of 822 Lai Chi Kok Road, Kowloon ⁽²⁾	Car parking	Monthly rental of HK\$6,400 with tenancy period from 1 August 2016 to 31 January 2018	1 year, 6 months	—
Parking Space No. 21 of Yam Hop Hing Industrial Building, 40-44 Kwai Wing Road, Kwai Chung, New Territories	Car parking	Monthly rental of HK\$3,500 with tenancy period from 1 May 2017 to 30 April 2018	1 year	—

Notes:

- (1) The approximate gross floor area of the premises is estimated by our Directors.
- (2) As at the Latest Practicable Date, we were negotiating with the landlords on the renewal and our Directors do not foresee any material impediment in the renewal of the lease.
- (3) The existing workshop and storeroom situated at West Wing on 5/F will be relocated to 7/F and/or 5/F, East Wing in the same building, and the lease of West Wing on 5/F will not be renewed upon expiry.

Owned properties

As at the Latest Practicable Date, we owned Huangpu Factory comprising a parcel of land with our production workshops, power room and canteen buildings located at Industrial Park, Huangpu County, Zhongshan City, Guangdong Province, the PRC. Our PRC Legal Advisers confirmed that we have obtained the valid title certificate and land use certificate of the Huangpu Factory.

Ancillary Facilities

We have leased a parcel of land with the total floor area of approximately 11,901 sq.m. located at Industrial Park, Huangpu County, Zhongshan City, Guangdong Province, the PRC from an independent third party (the “**Landlord**”) since 15 March 2003. We built buildings with a floor area of 7,981 sq.m. on the leased land for the usage of printing and embroidering processes, warehouse and canteen. As advised by our PRC Legal Advisers, we are not able to apply for valid title certificates for the said buildings since we failed to obtain the construction permits before the buildings were constructed and the legal title of the land is not hold by us.

Pursuant to the Construction Law of the PRC (《中華人民共和國建築法》), the relevant authorities have the right to order the construction entity to stop construction while a construction project proceeds without a construction permit. If it is impossible to take measures to eliminate the impact, the relevant authorities have the right to order the construction entity to stop construction or demolish the buildings within a specified period and impose a fine of between 1% and 2% of the construction costs according to the Construction Quality Management Regulations of the PRC (《建設工程質量管理條例》). The total construction costs for the buildings without construction permits amounted to RMB3.5 million. As a result, the relevant authorities may require that we demolish the buildings within a specified period and impose upon us a fine of up to RMB70,000 calculated based on 2% of the construction costs.

BUSINESS

Measures taken for the Ancillary Facilities

We received a confirmation letter from the Zhongshan Urban and Rural Planning Bureau Huangpu Branch dated 27 April 2017 confirming that the Ancillary Facilities are not referred to in any existing breaches of the Urban and Rural Planning Law of the PRC from 2012 to the date of the confirmation letter.

Based on the interviews with the Zhongshan Land and Resources Bureau Huangpu Branch, Zhongshan Housing and Urban-rural Development Bureau Huangpu Branch and Zhongshan Urban and Rural Planning Bureau Huangpu Branch (the “**PRC Authorities**”) conducted by our PRC Legal Advisers on 13 June 2017, it was confirmed that (i) the Ancillary Facilities do not fall into the categories of government plan that would require demolition or expropriation; and (ii) due to the historical issues, it is common to proceed with a construction project without a construction permit; and the relevant government bureau indicated that they would not penalise Mei Li Hua nor initiate demolition or expropriation since we have already obtained the approval of the construction design plan from Zhongshan Urban and Rural Planning Bureau Huangpu Branch prior to the construction of Ancillary Facilities. As advised by our PRC Legal Advisers, the PRC Authorities are the competent government authorities to identify and handle illegal constructions related matters.

Measures to be taken for the Ancillary Facilities

We have also adopted the backup relocation plan for the relocation of the Ancillary Facilities. For details, please refer to the paragraph headed “Backup relocation plan of the Ancillary Facilities” below.

Potential risks with respect to the Ancillary Facilities

Given that our Group has not received any challenges from the PRC Authorities to vacate from the Ancillary Facilities, and based on the interviews with and confirmation letter received from the PRC Authorities as mentioned above, our PRC Legal Advisers are of the opinion that the risk of the Ancillary Facilities being demolished or expropriated is remote and we can continue to use the Ancillary Facilities. As advised by our PRC Legal Advisers, the potentials risks with respect to the Ancillary Facilities are (i) being forced to vacate from the Ancillary Facilities and (ii) being ordered by the relevant authorities for a fine or administrative penalty not more than 2% of the construction cost, however, the risk of such enforcement is low based on the reasons as mentioned above.

Backup relocation plan of the Ancillary Facilities

Although we consider that the possibility of being forced to move out and relocate from the Ancillary Facilities is remote, we have identified three potential plants in the vicinity of the Ancillary Facilities being our backup relocation plan.

BUSINESS

The backup plants are located approximately 0.2 to 30 kilometres away from the Ancillary Facilities. The comparison of size of respective premises under the backup relocation plan and those in the Ancillary Facilities are set out below:

Function	Approximate size of premises in the Ancillary Facilities (approximate size of actual utilisation of space*)	Size of premises under backup relocation plan	Remarks
Printing	902 sq.m.	1,600 sq.m.	
Warehouse	3,000 sq.m. (1,480 sq.m.)	1,500 sq.m.	There is spare space in existing premises in the Ancillary Facilities and therefore the space in backup premises is sufficient.
Embroidery	3,000 sq.m. (1,665 sq.m.)	1,200 sq.m.	There is spare space in existing premises in the Ancillary Facilities and therefore the space in backup premises is sufficient. In the event of relocation, certain staff and machine in this department will be relocated to the Huangpu Factory instead.

* Actual utilisation of space is measured based on the area occupied by the existing machines and inventory racks.

Based on our Directors' estimation, the actual utilised area for warehouse and embroidery in the Ancillary Facilities are approximately 1,480 sq.m., and 1,665 sq.m., respectively. In the event of relocation, our Directors plan to move some embroidery machines that are occupying an area of approximately 480 sq.m. from Ancillary Facilities to the Huangpu Factory. Therefore, our Directors believe the backup relocation plan is feasible and sufficient for operation requirement.

As at the Latest Practicable Date, we have entered into legally binding pre-lease agreements with each of the landlords of the backup plants and agreed to pay RMB3,000 to each landlord as deposit. According to the pre-lease agreements, we have the right, but are under no obligation, to enter into a formal lease agreement with each landlord on or before 31 December 2017, and have the right to extend such date to 31 December 2018 based on the discussion between the landlords and us. The backup plants are currently occupied by their respective landlords whom are independent third parties, and who agreed to provide vacant possession to us within three months from the date of entering into the formal lease agreements.

We will provide meal allowance to our production-related employees instead of leasing a new canteen.

BUSINESS

Time frame of the backup relocation plan

In the course of any relocation, to avoid material disruption to our production, our production units can be temporarily moved to the Huangpu Factory. Given that (i) the Ancillary Facilities are close to the Huangpu Factory; and (ii) most of our machinery and equipment are located in the Huangpu Factory, it is estimated that the relocation of the equipment to the backup plant requires approximately 11 weeks (the “**Relocation Period**”), of which three weeks are for planning and preparing for the relocation, and another eight weeks are for refurbishing the backup plants and transfer and installation for the production units. Therefore, we expect the backup plants can be fully ramped up for production within eight weeks from the date we commence the actual physical relocation.

Estimated cost of backup relocation plan

We estimate the costs to relocate the Ancillary Facilities to the backup plants will not be more than approximately RMB1.3 million and in the event of such relocation, the costs will be indemnified by our Controlling Shareholders.

The table below sets out the breakdown of the estimated costs of relocation:

	Estimated costs of relocation <i>(RMB million)</i>
Relocation expenses relating to machinery, production lines and plant renovation	0.7
Rental fee and deposit	0.2
Subcontracting fee for printing and embroidering processes during relocation	0.3
Consultancy fee at planning stage	0.1
Total relocation costs	<u>1.3</u>

Estimated loss in the unlikely event of production stoppage arising from the relocation

Given that the Ancillary Facilities only involve our printing and embroidering processes, we are able to subcontract these two production processes to our approved subcontractors. Our Directors consider that the relocation will not affect our production processes and the estimated production capacity of printing and embroidering processes will not decrease due to the relocation. If in the unlikely event that the relocation of Ancillary Facilities is required, it would increase our annual cost for meal allowance of approximately RMB0.1 million and annual transportation cost of approximately RMB0.1 million. It is expected that there would be no increment to the rental expenses as compared to the current rent of the Ancillary Facilities.

BUSINESS

Indemnity

With regard to the Ancillary Facilities, in the case where such properties are required to be demolished or become involved in any disputes, or our day-to-day use of such properties is adversely affected due to the title defects, our Controlling Shareholders have undertaken to indemnify and keep each of our Group members indemnified against all losses, fines or expenditures incurred as a result thereof if the lessors of such properties fail to fully compensate us.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we owned 10 registered trademarks in Hong Kong, 13 trademarks in PRC and six trademarks in Taiwan. We have also applied for registration of two trademarks in Macao. As at the Latest Practicable Date, we did not receive any material claim against our Group for infringement of any trademark nor were we aware of any pending or threatened claims in relation to any such infringement, nor had any material claim been made by our Group against third parties in relation to the infringement of intellectual property rights owned by us or third parties.

We are also the registered owner of 10 domain names. For details, please refer to the section headed “B. Further information about the business of our Group — 2. Intellectual property rights of our Group” 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.

INSURANCE

As at the Latest Practicable Date, we maintained insurance policies to protect us against bodily injury and property all risks insurance for our inventories, property, plant and equipment, employees’ compensation insurance, travel insurance, vehicle insurance and medical insurance for our employees.

During the Track Record Period, 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. 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

Save as disclosed below, during the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we had complied with all major applicable laws and regulations in Hong Kong and in the PRC in all material respects.

Non-compliance with the Construction Law of the PRC and Construction Quality Management Regulations of the PRC

Set out below is non-compliance by Mei Li Hua in relation to the Ancillary Facilities:

Relevant law and regulation	Particular of the non-compliance	Reason for the non-compliance	Remedial action	Legal consequence	Enhanced internal control measures
<p>The Construction Law of the PRC (《中華人民共和國建築法》) and the Construction Quality Management Regulations of the PRC (《建設工程質量管理條例》)</p>	<p>Mei Li Hua failed to obtain (1) building permit for construction project before the Ancillary Facilities were constructed; and (2) title certificate for the Ancillary Facilities.</p>	<p>The non-compliance was due to a lack of understanding of the relevant requirements concerning building construction in the PRC.</p>	<p>We have sought legal advice from our PRC Legal Advisers as soon as we identified the issue.</p> <p>On 27 April 2017, Zhongshan Urban and Rural Planning Bureau Huangpu Branch issued a confirmation confirming that there is no record of non-compliances under the relevant urban and rural planning regulations for Mei Li Hua.</p> <p>We have also adopted the backup relocation plan as detailed in the paragraph headed “Ancillary Facilities” in this section, while we consider that the possibility of being forced to move out and relocate from the Ancillary Facilities is remote.</p>	<p>According to the Construction Law of the PRC, if building work had commenced without the necessary building permit, a fine equivalent to an amount between 1% and 2% of the fee payable under the construction agreement shall be imposed.</p> <p>As at the Latest Practicable Date, we had not been fined under the Construction Law of the PRC nor were we aware of any other action taken by the relevant authority with regards to our usage of the Ancillary Facilities.</p> <p>Based on the interviews with Zhongshan Land and Resources Bureau Huangpu Branch, Zhongshan Housing and Urban-rural Development Bureau Huangpu Branch and Rural Planning Bureau Urban and Rural Branch, our PRC Legal Advisers are of the view that our non-compliances in respect of the failure to obtain building permit and title certificate for the Ancillary Facilities will not have a material adverse impact on the production and operation of our Group.</p>	<p>We have consulted our PRC Legal Advisers regarding the requirements under the Construction Law of the PRC and the Construction Quality Management Regulations of the PRC and the responsible administrative staff are also made aware of the relevant requirements. Effective from 22 June 2017, our Company has adopted a written standard policy regarding the selection and approval of leasing and purchasing properties.</p> <p>Pursuant to such policy, inter alia, a compliance checklist will be established by the accounting manager of Mei Li Hua for processing leases, and reviewed by the deputy factory director. Our Board will review future properties particularly with respect to their nature, designated usage and the underlying title.</p>

BUSINESS

As advised by our PRC Legal Advisers, the possibility of being forced to move out and relocate from the Ancillary Facilities is remote. In relation to the aforesaid, we have adopted the backup relocation plan. For details, please refer to the paragraph headed “Ancillary Facilities” in this section.

Internal control measures

Regarding the leasing and purchasing of properties, to prevent future recurrence of occupying properties with defective titles, our Company has established a policy regarding selection and approval of leasing and purchasing of properties. We will adopt the following internal control measures:

- (i) designating our accounting manager and deputy factory director, to overall handle leasing and purchasing of properties and registration of leases, and to monitor the progress of registration with the relevant landlord;
- (ii) implementing a formal request and approval form for our executive Directors’ approval for the process of leasing and purchasing of properties;
- (iii) establishing a compliance checklist for processing leases. The compliance checklist will include the timeframe for the leasing procedure, due diligence procedures to be performed on the landlord and documents to be obtained/inspected from the landlord;
- (iv) involving an internal or external legal expert to perform due diligence on relevant landlord to confirm the title of the property, and assist our Group to confirm the validity of the documents obtained from the landlord; and
- (v) our Board will prudently review future properties, particularly the nature, designated usage and the underlying title of the relevant properties.

Furthermore, the following entity-level control measures have been designed and implemented in order to prevent the recurrence of any of the aforementioned non-compliance matters in the future:

- (i) To ensure our Group’s compliance with applicable laws, regulations and rules, our deputy factory director and head of departments are responsible for monitoring day-to-day compliance related matters. Our deputy factory director and head of departments will report, on periodic basis, to our executive Directors, who was designated to supervise the compliance related matters of our Group. Our executive Directors will report to our Board on compliance related matters and is authorised to enlist the professional assistance and advice of external professional advisors if and whenever deemed appropriate or necessary.
- (ii) Upon Listing, an audit committee will be set up to ensure proper internal control, with written terms of reference in accordance with Appendix 15 to the GEM Listing Rules, to review our internal control and risk management systems and monitor the effectiveness of our internal audit function.

BUSINESS

- (iii) Independent internal control adviser will be engaged by our Company to perform regular reviews of our Group's material internal control measures on an annual basis. The independent internal control adviser to be appointed shall be a professional firm specialising in corporate governance, risk management and internal control review services and which has the relevant experience in providing internal control review services to listed companies.

In addition, we have appointed Alliance Capital Partners Limited as our compliance adviser with effect from the date of the Listing to advise on ongoing compliance with the GEM Listing Rules and other applicable securities laws and regulations in Hong Kong.

View of our Directors and the Sole Sponsor

Our Directors consider that the abovementioned non-compliance incident would not affect the suitability of our executive Directors under Rules 5.01 and 5.02 of the GEM Listing Rules or the suitability of listing of our Company under Rule 11.06 of the GEM Listing Rules and that the various internal control measures adopted by our Group are adequate and effective having taken into account that (i) our Group has adopted a backup relocation plan for the non-compliance incident; (ii) our Group has implemented (or will implement where applicable) the abovementioned measures to avoid recurrence of the non-compliance incident; (iii) there were no recurring of similar non-compliance incident since the implementation of such measures; and (iv) the non-compliance incident was unintentional, did not involve any dishonesty or fraudulent act on the part of our executive Directors, and did not raise any question as to the integrity of our executive Directors.

The Sole Sponsor, after considering the above and having reviewed the backup relocation plan and internal control measures, concurs with the view of our Directors that (a) the various internal control measures adopted by our Group are adequate and effective; and (b) the abovementioned non-compliance incident would not affect the suitability of our Directors under Rules 5.01 and 5.02 of the GEM Listing Rules and the suitability of listing of our Company under Rule 11.06 of the GEM Listing Rules.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Share Offer (without taking into account any Shares which may be allotted and issued upon exercise of any options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option) and the Capitalisation Issue, Joyful Cat will directly hold 75% of the issued share capital of our Company. The entire issued share capital of Joyful Cat is wholly owned by Ms. Fung.

For the purpose of the GEM Listing Rules, each of Ms. Fung and Joyful Cat is our Controlling Shareholder on the following basis:

1. Joyful Cat is entitled to exercise 30% or more of the voting power at general meetings of our Company; and
2. Ms. Fung holds 100% interest in Joyful Cat and so controls the voting power of Joyful Cat in our Company.

Information on other companies owned by our Controlling Shareholders and their close associates

As at the Latest Practicable Date, none of our Controlling Shareholders, Directors or their respective close associates controlled any business which competes, or is likely to compete, either directly or indirectly, with our business.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders upon or shortly after the Listing.

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

Management independence

Our Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors.

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit and in the best interest of our Company and that no conflict between his/her duties as a Director and his/her personal interest would be allowed. 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 Director(s) or their respective close associate(s), the interested Director(s) shall abstain from voting at the relevant Board meeting(s) of our Company in respect of such transactions and shall not be counted towards the quorum.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Three of the members of our Board are our independent non-executive Directors who are well-educated, and have extensive experience in different areas or are professionals, and they have been appointed pursuant to the requirements under the GEM Listing Rules to ensure that the decisions of our Board will be made only after due consideration of independent and impartial opinions.

Furthermore, our Board's main functions include devising and approving the overall business plans and strategies of our Group, monitoring the implementation of our Group's policies and strategies, and taking into account the reports and advice of the senior management of our Group. In addition, our Company has an independent senior management team to carry out the business decisions of our Group independently.

Having considered the above factors, our Directors are of the view that they are able to carry out the business decisions of our Group independently and to perform their relevant roles independently of our Controlling Shareholders and their respective associates after the Listing.

Operational independence

The operations of our Group are independent of and not connected with our Controlling Shareholders and their respective close associates. Our Group has established our own set of organisational structure made up of individual divisions, each with specific areas of responsibilities, including development, sales and marketing, administration, finance and accounting. All of the operating subsidiaries of our Company hold the necessary assets and equipment for the operations of our Group.

Friendley Limited (formerly known as Ultra Focus Limited) ("**Friendley**") was incorporated in Hong Kong with limited liability on 19 April 2010 as a property investment holding company and is owned as to 50% by Ms. Fung and 50% by Ms. Luk. Ms. Fung and Ms. Luk have been the directors of Friendley since 20 April 2010.

Friendley once had a retail business. In March 2011, Mr. Char Yat San Jonathan, Ms. Luk's son, initiated the starting up of a retail business selling non-fabric made baby products of high-end third party brands such as baby walking frames, beds, children's cots and toys under the retail shop name "**MAMA'S DEAR**" and has started managing such business for Friendley. However, soon in early 2014, Mr. Char Yat San Jonathan decided to leave Friendley for personal reasons and close down the business. He then approached us and asked if our Group would acquire the stocks of Friendley and take up the remaining tenancies of the store in Cyberport. Our Directors considered that such arrangement would be beneficial to our Group as a whole as (i) the new brand of such shop in Cyberport would broaden our product variety; (ii) the sale of non-fabric made baby products would bring in new insights to our then existing business model; and (iii) some shopping malls might have preferences as to certain high-end brands and the positioning of "**MAMA'S DEAR**" could enhance our liaison with these landlords, and therefore agreed with such arrangement.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Friendley then requested the landlord in writing to novate the remaining tenancies of the shop in Cyberport to our Group in May 2014. Babies Trendyland, Friendley and the landlord then entered into two novation agreements on 15 September 2014 in respect of the tenancy agreements for that shop, pursuant to which Babies Trendyland, as tenant, substituted Friendley with effect from 1 April 2014. Since April 2014, Friendley has ceased all its retail business and has subsequently sold its last property in September 2016. Since then Friendley has not carried on any business activities and will be liquidated.

As at the Latest Practicable Date, Ms. Fung and Ms. Luk were still the directors and shareholders of Friendley. Friendley no longer held any assets. In addition, there will not be any further business transactions between Friendley and our Group. Our Directors consider that Friendley is an investment holding company which does not engage in any business that is or will be in direct competition with our Group. Our Directors also consider that Ms. Fung and Ms. Luk have taken all reasonable steps to avoid competition with our Group and that each of them has entered into a deed of non-competition with our Group, and are satisfied that Ms. Fung and Ms. Luk will not enter into any direct competition with our Group at any time before Friendley's liquidation.

In view of the above measures and arrangements, and having taken into account the business operations of our Group as a whole, our Directors are of the view that there is no operational dependence on our Controlling Shareholders, Directors and their respective associates.

Financial independence

Our Group has an independent financial system, and makes financial decisions according to our Group's own business needs. We have sufficient capital to operate our business independently, and adequate internal resources and a strong credit profile to support our daily operations.

During the Track Record Period, each of Ms. Fung or her close associates had provided guarantee or collateral security to secure certain of the banking facilities granted to our Group. As at the Latest Practicable Date, based on the communications between our Group and the relevant banks, our Directors confirm that all such personal guarantees and collateral security provided to our Group by Ms. Fung or her respective close associates will be released and replaced by a corporate guarantee provided by our Company upon the Listing.

As such, upon the Listing, our Group will have independent access to third party financing without relying on any guarantee from its Controlling Shareholders or their respective associates. All loans and advances due from/to our Controlling Shareholders or their respective associates will be fully settled before the Listing. Our Directors are of the view that our Group is able to obtain external financing on market terms and conditions for its business operations as and when required and is not financially dependent on our Controlling Shareholders or any of their respective close associates.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

RULE 11.04 OF THE GEM LISTING RULES

Our Controlling Shareholders, our Directors and their respective close associates do not have any interest in a business apart from our Group's business which competes, or is likely to compete, directly or indirectly, with our Group's business and would require disclosure under Rule 11.04 of the GEM Listing Rules.

DEED OF NON-COMPETITION

In order to ensure that direct competition does not develop between us and the activities of our Controlling Shareholders, each of Joyful Cat and Ms. Fung has agreed to provide a non-competition undertaking in our favour, the principal terms of which are described below.

Each of Joyful Cat and Ms. Fung has entered into the Deed of Non-competition in favour of our Company, pursuant to which each of Joyful Cat and Ms. Fung has undertaken to our Company (for ourselves and as trustee for and on behalf of our subsidiaries) that they would not, and they would use their best endeavours to procure that their close associates (except any members of our Group) shall not, whether directly or indirectly (including through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise) or as principal or agent, and whether on their own account or with each other or in conjunction with or on behalf of any person, firm or company or through any entities (except in or through any member of our Group), carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition, directly or indirectly, with the business of any member of our Group (the "**Restricted Business**").

The above undertaking does not preclude Joyful Cat and Ms. Fung from having an aggregate interest in:

- (a) not more than 5% of the issued shares in any company engaging any Restricted Business (the "**Subject Company**") which is or whose holding company is listed on any recognised exchange; or
- (b) not more than 5% of the Subject Company's consolidated turnover or assets, as shown in the Subject Company's latest audited accounts, provided that there is a holder (with its close associates where appropriate) with a larger shareholding in the Subject Company than the aggregate shareholding held by any of Joyful Cat and Ms. Fung and/or their respective close associates and the total number of representatives of any of Joyful Cat and Ms. Fung on the board of directors of the Subject Company is not significantly disproportionate in relation to his or its shareholding in the Subject Company.

If any investment or other business opportunity relating to our business (the "**Business Opportunity**") is identified by Joyful Cat and Ms. Fung, they shall refer such Business Opportunity to our Company and shall not pursue such Business Opportunity unless our Board or a board committee which does not have a material interest in the Business Opportunity declines the Business Opportunity.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Pursuant to the Deed of Non-competition, the above restrictions would only cease to have effect on the earliest of the date on which Joyful Cat and Ms. Fung cease to hold directly or indirectly in aggregate 30% or more of the entire issued share capital of our Company, or otherwise cease to be Controlling Shareholders or the Shares cease to be listed and traded on the Stock Exchange.

Further, the independent non-executive Directors will review, on an annual basis, the compliance of Joyful Cat and Ms. Fung with the Deed of Non-competition (in particular, the right of refusal relating to any Business Opportunity) and our Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance with and the enforcement of the Deed of Non-competition in our annual report or by way of announcement to the public.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following corporate governance measures to avoid potential conflict of interests and safeguard the interests of our Shareholders:

- (a) compliance with the GEM Listing Rules, in particular, strictly observe any proposed transactions between us and our connected person(s) and comply with the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules where applicable;
- (b) appointment of Alliance Capital Partners Limited as our compliance adviser to advise us on the compliance matters in respect of the GEM Listing Rules and applicable laws and regulations;
- (c) our independent non-executive Directors will be responsible for considering and deciding as to whether to pursue or decline the Business Opportunity;
- (d) our Controlling Shareholders undertake to provide all details reasonably necessary for our Company to consider whether to pursue such Business Opportunity, and in the event that there is any material change in the nature, terms or conditions of such Business Opportunity, our Controlling Shareholders shall refer such Business Opportunity to our Company as if it were a new Business Opportunity;
- (e) if appropriate, our independent non-executive Directors may appoint independent financial advisers to assist in the decision-making process in relation to such Business Opportunity;
- (f) our Controlling Shareholders undertake to provide all information necessary for the annual review by our independent non-executive Directors in respect of the compliance with the Deeds of Non-competition;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (g) our independent non-executive Directors will review, on an annual basis, the compliance of our Controlling Shareholders with the Deeds of Non-competition, in particular the right of refusal relating to any Business Opportunity and our Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance with and enforcement of the Deeds of Non-competition in our annual report or by way of announcement to the public; and
- (h) adoption of the Articles which provides that a Director shall, unless otherwise provided by the Articles, abstain himself/herself from voting on any resolutions of our Board nor he/she be counted towards the quorum in relation to any contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested.

SHARE CAPITAL

The share capital of our Company immediately following completion of the Share Offer and the Capitalisation Issue is set out in the table below. The table is prepared on the basis of the Share Offer becoming unconditional and the issue of Offer Shares pursuant thereto is made as described herein. It takes into no account of any Shares which may be issued upon the exercise of options granted under the Share Option Scheme or the Offer Size Adjustment Option or any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below or otherwise.

<i>Authorised share capital:</i>	<i>HK\$</i>
2,000,000,000 Shares	20,000,000.00
<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the Share Offer</i>	
101 Shares in issue as at the date of this prospectus	1.01
299,999,899 Shares to be issued pursuant to the Capitalisation Issue	2,999,998.99
100,000,000 Offer Shares to be issued pursuant to the Share Offer (assuming the Offer Size Adjustment Option is not exercised)	1,000,000.00
400,000,000 Shares	4,000,000.00

If the Offer Size Adjustment Option is fully exercised, we will allot and issue an additional 15,000,000 Shares and we will have in issue 415,000,000 Shares and our issued share capital will be HK\$4,150,000.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at least 25% of the total number of issued Shares must at all times be held by the public. The 100,000,000 Offer Shares represent 25% of the total number of issued Shares upon Listing.

RANKING

The Offer Shares, together with the Shares which may be issued upon the exercise of options granted under the Share Option Scheme and the Offer Size Adjustment Option, will rank *pari passu* in all respects with all the Shares now in issue or to be allotted and issued as mentioned in this prospectus and will qualify for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the Listing Date.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the major terms of which are set out in the section headed “D. Share Option Scheme” in Appendix IV to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with the Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements or a specific authority granted by the Shareholders) shall not exceed:

- (a) 20% of the total number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme and the Offer Size Adjustment Option); and
- (b) the total number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares referred to in the paragraph headed “General mandate to repurchase Shares” below in this section.

This mandate does not cover Shares to be allotted, issued or dealt with under a rights issue, scrip dividend scheme or similar arrangement in accordance with the Articles, or pursuant to the exercise of options granted under the Share Option Scheme. This general mandate to issue Shares will remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of our Company;
- (b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
- (c) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

For further details of this general mandate, please refer to the section headed “A. Further information about our Company — 3. Written resolutions of the existing sole Shareholder” in Appendix IV to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares of not more than 10% of the total number of Shares in issue following the completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of options granted under the Share Option Scheme and the Offer Size Adjustment Option).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange(s) on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, and such repurchases are made in accordance with all applicable laws and/or requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the section headed “A. Further information about our Company — 6. Repurchase by our Company of our own securities” in Appendix IV to this prospectus.

The general mandates to issue and repurchase Shares will remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of our Company;
- (b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable law of the Cayman Islands to be held; or
- (c) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

For further details of this general mandate, please refer to the section headed “A. Further information about our Company — 6. Repurchase by our Company of our own securities” in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

The circumstances under which general meeting and class meeting are required are provided in the Articles. For details, please see the section headed “2. Articles of Association” in Appendix III to this prospectus.

SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following completion of the Share Offer (without taking into account any Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option) and the Capitalisation Issue, have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the number of total issued shares carrying rights to vote in all circumstances at general meetings of our Company or any of its subsidiaries:

Long position in the Shares

Name	Capacity/nature	Number of Shares held/interested immediately following completion of the Share Offer	Percentage of shareholding immediately following completion of the Share Offer
Joyful Cat	Beneficial owner	300,000,000	75%
Ms. Fung	Interest in controlled corporation (<i>Note</i>)	300,000,000	75%

Note: The entire issued share capital of Joyful Cat is owned by Ms. Fung. Therefore, Ms. Fung is deemed to be interested in all the Shares held by Joyful Cat for the purposes of the SFO.

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Share Offer (without taking into account any Shares to be issued upon exercise of any option which may be granted under the Share Option Scheme and the Offer Size Adjustment Option) and the Capitalisation Issue, have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly interested in 10% or more of number of total issued shares carrying rights to vote in all circumstances at general meetings of our Company or any of its subsidiaries.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board currently consists of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. Our executive Directors and senior management are involved in the day-to-day management of our business. The following table sets forth certain information in respect of our Directors:

Name	Age	Date of joining our Group	Date of appointment as Director	Position	Brief description of roles and responsibilities	Relationship with other Directors or senior management
Ms. Fung Sau Ying (馮秀英)	60	April 1994	17 May 2017 (Note)	Chairlady, chief executive officer and executive Director	The formulation of the overall development strategies and business plans of our Group	Ms. Fung is an aunt of Mr. Cheung Desmond Lap Wai
Mr. Cheung Desmond Lap Wai (張立維)	35	October 2008	17 May 2017 (Note)	Chief operating officer and executive Director	The overseeing of the financial and accounting, human resources, administrative matters as well as the OBM business of our Group	Mr. Cheung Desmond Lap Wai is a nephew of Ms. Fung
Ms. Ho Lai Ying (何麗英)	48	March 1997	17 May 2017 (Note)	Executive Director	The overseeing of the OEM business of our Group	N/A
Ms. Luk Sau Kuen (陸秀娟)	58	January 2002	6 July 2017	Non-executive Director	The provision of consulting advice on the corporate image, social responsibility and management philosophy of our OBM business	N/A
Mr. Choi Wing San Wilson (蔡永新)	44	December 2017	28 December 2017	Independent non-executive Director	The supervision and provision of independent judgement to our Board	N/A
Mr. Cheung Ping Kwan Timothy (張聘君)	56	December 2017	28 December 2017	Independent non-executive Director	The supervision and provision of independent judgement to our Board	N/A

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Date of joining our Group	Date of appointment as Director	Position	Brief description of roles and responsibilities	Relationship with other Directors or senior management
Mr. Leung Wai Yin (梁偉賢)	41	December 2017	28 December 2017	Independent non-executive Director	The supervision and provision of independent judgement to our Board	N/A

Note: Each of Ms. Fung, Mr. Cheung and Ms. Ho was re-designated as an executive Director on 6 July 2017.

The following table sets forth certain information in respect of our members of senior management:

Name	Age	Date of joining our Group	Position	Brief description of roles and responsibilities	Relationship with other Directors or senior management
Ms. So Kit Lan (蘇潔蘭)	59	March 2002	Production manager	The overseeing of the general management and daily operations of the production department of our Group	N/A
Ms. Lam Pik Shan Miran (林碧珊)	44	October 2009	Accounting manager	Responsible for the accounting, internal control, compliance and company secretarial matters of our Group	N/A

Executive Directors

Ms. Fung Sau Ying (馮秀英), aged 60, has been our chairlady and chief executive officer since June 2004. She was appointed as our Director on 17 May 2017 and was re-designated as our executive Director on 6 July 2017. Ms. Fung is mainly responsible for formulating the overall development strategies and business plans, including production development, and overseeing the general management and daily operation of our Group. Ms. Fung has also been a director of Mantex Supplies, Martex International, Mei Li Hua, Babies Trendyland and Mi'Des Associated since 2 December 1994, 18 February 1998, 23 March 1993, 10 June 2004 and 10 June 2004, respectively.

Ms. Fung joined our Group in April 1994 as deputy general manager of Mei Li Hua and is the founder of Babies Trendyland and Mi'Des Associated. Ms. Fung has over 23 years of experience in manufacturing, trading, and retailing of baby clothing and clothing accessories of infants and toddlers.

DIRECTORS AND SENIOR MANAGEMENT

Prior to joining our Group, Ms. Fung worked in Mansion Manufacturing Co. from 1983 to 1994 with her last position being a manager.

Ms. Fung obtained a Bachelor of Science degree in Atmospheric Sciences from the National Taiwan University (國立臺灣大學) in Taiwan in June 1983. Ms. Fung was elected CEO Member of the CEO Club of the Institute for Enterprise of the Hong Kong Polytechnic University in April 2006. Ms. Fung was appointed the honorary chairperson of the fifth committee of Zhongshan Huangpuzhen Federation of Returned Overseas Chinese* (中山市黃圃鎮歸國華僑聯合會) in December 2013. Ms. Fung is an aunt of Mr. Cheung Desmond Lap Wai, our executive Director.

Ms. Fung was a director of the following companies, all of which were incorporated in Hong Kong with limited liability and were dissolved by way of deregistration as these companies ceased to carry on business. As confirmed by Ms. Fung, each of these companies was solvent and inactive at the time when they were dissolved and there was no wrongful act on her part leading to the dissolution and she is not aware of any actual or potential claim that has been or will be made against her as a result of such dissolution.

Company Name	Nature of Business before Dissolution	Nature of proceeding	Date of Dissolution
Fast Great (Hong Kong) Limited	Corporation	Deregistration	3 October 2014
Keen Toast Limited	Manufacturing	Deregistration	17 August 2007

Mr. Cheung Desmond Lap Wai (張立維), aged 35, was appointed as our Director on 17 May 2017 and was re-designated as our executive Director and appointed as our chief operating officer on 6 July 2017. Mr. Cheung is mainly responsible for overseeing the financial and accounting, human resources and administrative matters as well as the OBM business of our Group.

Mr. Cheung has over nine years of experience in business development and sales and marketing. Mr. Cheung joined our Group in October 2008 as the manager of business development and marketing department with his current position as the chief executive officer of Babies Trendyland since April 2016.

Prior to joining our Group, Mr. Cheung worked in Samsung SDS America, Inc., a subsidiary of Samsung Electronics Co., Ltd., as a junior consultant of systems in 2005. From 2005 to 2008, Mr. Cheung worked in Model N, Inc., a company listed on the New York Stock Exchange (stock code: MODN) which is a pioneer and leading provider of revenue management solutions for the life sciences and technology industries, with his last position being a member of technical staff of product development.

Mr. Cheung obtained a Bachelor of Arts degree in Computer Science from the University of California, Berkeley in California, US in December 2004 and a Master of Science degree in Software Management from the Carnegie Mellon University in Pittsburgh, Pennsylvania, US in August 2010. Mr. Cheung also obtained a Master of Business Administration degree from The Chinese University of Hong Kong in Hong Kong in November 2016.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Cheung was selected for membership in Beta Gamma Sigma the international honour society for collegiate schools of business under The Chinese University of Hong Kong Chapter in November 2016. Mr. Cheung is a nephew of Ms. Fung, our chairlady, chief executive officer and executive Director.

Ms. Ho Lai Ying (何麗英), aged 48, was appointed as our Director on 17 May 2017 and was re-designated as our executive Director on 6 July 2017. Ms. Ho is mainly responsible for overseeing the OEM business of our Group.

Ms. Ho joined our Group as sales and merchandising manager in March 1997. Since April 2016, Ms. Ho has been the deputy chief executive officer of Mantex Supplies, overseeing the daily operation of its sales and merchandising department. Ms. Ho has over 20 years of experience in merchandising.

Prior to joining our Group, Ms. Ho worked in UCP International Co., Ltd., a company founded in 1969 with businesses including wholesale distribution of home furnishings and housewares from July 1995 to March 1997 as a merchandiser.

Ms. Ho obtained a Bachelor of Business Administration degree in Applied Economics from the Hong Kong Baptist College (now known as the Hong Kong Baptist University) in Hong Kong in December 1992.

Non-executive Director

Ms. Luk Sau Kuen (陸秀娟), aged 58, was appointed as our Director and re-designated as our non-executive Director on 6 July 2017. She is a director of Babies Trendyland and Mi'Des Associated. Ms. Luk is responsible for advising the corporate image, social responsibility and management philosophy of our OBM business.

Ms. Luk joined our Group in January 2002 as a business consultant of Mantex Supplies.

Ms. Luk obtained a Bachelor of Social Sciences degree from the University of Hong Kong in Hong Kong in November 1981, a Master of Philosophy from the University of Hong Kong in Hong Kong in January 1995, and a Master of Education from The Chinese University of Hong Kong in Hong Kong in December 2002.

Ms. Luk also obtained a Certificate in Teaching Putonghua from The Chinese University of Hong Kong in August 1993. Prior to joining our Group, Ms. Luk worked at the Hong Kong Independent Commission Against Corruption as a commission against corruption officer of the community relations department from 1981 to 1987. From 1991 to 1992, Ms. Luk worked at the Carmel Alison Lam Foundation Secondary School as a graduate teacher. From 1995 to 2001, Ms. Luk was a language instructor at the Hong Kong Baptist University.

DIRECTORS AND SENIOR MANAGEMENT
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Ms. Luk was a director of the following companies, all of which were incorporated in Hong Kong with limited liability and were dissolved by way of deregistration as these companies ceased to carry on business. As confirmed by Ms. Luk, each of these companies was solvent and inactive at the time when they were dissolved and there was no wrongful act on her part leading to the dissolution and she is not aware of any actual or potential claim that has been or will be made against her as a result of such dissolution.

Company Name	Nature of Business before Dissolution	Nature of proceeding	Date of Dissolution
China Asset Holdings Limited	Chinese medical clinic	Deregistration	22 January 2010
Keymark Limited	Trading	Deregistration	16 August 2002

Independent non-executive Directors

Mr. Choi Wing San Wilson (蔡永新), aged 44, was appointed as our independent non-executive Director on 28 December 2017 and is mainly responsible for the supervision and provision of independent judgement to our Board.

From 1997 to 2003, Mr. Choi worked at Systek Information Technology Limited (subsequently known as Acme Technologies (Hong Kong) Limited), with his last position being a project manager responsible for overall project management, and analysis and design training.

Subsequently since May 2003, Mr. Choi has been a director of Transaction Technologies Limited (formerly known as Systek Financial Technology Limited), a company specialising in providing innovative financial services, including most of the commonly traded financial products, to major banks and brokerage firms in Hong Kong, the PRC and Vietnam. Mr. Choi is also the chief architect who is mainly responsible for the overall strategic planning, sales and marketing, and research and product development.

Mr. Choi obtained a Bachelor of Arts degree in Computing and a Master degree in Corporate Finance from the Hong Kong Polytechnic University in Hong Kong in November 1997 and December 2007, respectively, and a Master degree in Business Administration from The Chinese University of Hong Kong in Hong Kong in November 2016.

Mr. Choi was a director of Investexpert Limited, an information technology company, which was incorporated in Hong Kong with limited liability and was dissolved by way of deregistration on 25 January 2008. As confirmed by Mr. Choi, this company was solvent and inactive at the time when it was dissolved and there was no wrongful act on his part leading to the dissolution and he is not aware of any actual or potential claim that has been or will be made against him as a result of such dissolution.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Cheung Ping Kwan Timothy (張聘君), aged 56, was appointed as our independent non-executive Director on 28 December 2017 and is mainly responsible for the supervision and provision of independent judgement to our Board.

Mr. Cheung was admitted as a barrister of the Supreme Court of Hong Kong in August 1985 and a solicitor of the High Court of Hong Kong in July 2012.

Mr. Cheung has over 28 years of experience in legal and regulatory matters, including having worked as a barrister practising both criminal and civil laws and subsequently becoming a solicitor specialising in civil work.

Mr. Cheung obtained a Bachelor of Laws degree and a Postgraduate Certificate in Laws from the University of Hong Kong in Hong Kong in November 1984 and in July 1985, respectively, and a Bachelor of Civil Law degree from the University of Oxford in England in August 1987.

Mr. Leung Wai Yin (梁偉賢), aged 41, was appointed as our independent non-executive Director on 28 December 2017 and is mainly responsible for the supervision and provision of independent judgement to our Board.

From July 1998 to February 2002, Mr. Leung worked in Kindclock Limited, a company that manufactures watches, clocks and jewellery as well as electronic components for watches, as an administrative executive and was in charge of the accounting, personnel and administrative departments at the factory in China. From April 2002 to August 2007, Mr. Leung worked in Mantex Supplies with his last position being an assistant factory manager. Since March 2009, Mr. Leung has been working in JLA Asia Limited, a company that specialises in forensic accounting, insolvency management, transactional and turnaround services, with his current position as a senior manager.

Mr. Leung has been a fellow of the Association of Chartered Certified Accountants since October 2011 and a member of the Hong Kong Institute of Certified Public Accountants since January 2016.

Mr. Leung obtained a Bachelor of Business Administration in Accounting and Finance from the University of Hong Kong in Hong Kong in December 1998 and a Master of Science in Investment Management from the Hong Kong University of Science and Technology in Hong Kong in May 2009.

Save as disclosed in this prospectus, each of our Directors has confirmed that (i) he/she has no interests in the Shares within the meaning of Part XV of the SFO; (ii) he/she is independent from, and is not related to, any other Directors, members of the senior management, Substantial Shareholders or Controlling Shareholders; (iii) he/she has not held any directorship in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years; and (iv) there is no other information which is required to be disclosed pursuant to any of the requirements under Rules 17.50(2)(h) to 17.50(2)(w) of the GEM Listing Rules nor are there any matters which need to be brought to the attention of the Shareholders in connection with his/her appointment.

Each of our independent non-executive Directors has also confirmed his independence for the purpose of Rule 5.09 of the GEM Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

ROLES OF CHAIRPERSON AND CHIEF EXECUTIVE OFFICER PERFORMED BY THE SAME INDIVIDUAL

Pursuant to Code Provision A.2.1 of the CG Code, the roles of chairperson and chief executive officer should be separate and should not be performed by the same individual. Ms. Fung is currently the chairlady of our Board and our chief executive officer, responsible for formulating the overall development strategies and business plans, including production development, and overseeing the general management and daily operation of our Group. In view of Ms. Fung's aforesaid responsibilities since June 2004, our Board believes that it is in the best interest of our Group to have Ms. Fung taking up both roles for effective management and business development. Our Board considers that the balance of power and authority, accountability and independent decision-making under our present arrangement will not be impaired because of the diverse background and experience of our independent non-executive Directors. Further, our Audit Committee consists of one non-executive Director and two independent non-executive Directors, and all of our independent non-executive Directors have free and direct access to our Company's external auditors and independent professional advisers when they consider necessary.

In order to maintain good corporate governance and to fully comply with Code Provision A.2.1 of the CG Code, our Board will regularly review the need to appoint different individuals to perform the roles of chairperson and chief executive officer separately and to make appropriate changes if considered necessary.

SENIOR MANAGEMENT

Ms. So Kit Lan (蘇潔蘭), aged 59, is the production manager of our Group and is mainly responsible for overseeing the general management and daily operation of the production department of our Group.

Ms. So has over 30 years of experience in manufacturing and production of baby clothing and clothing accessories of infants and toddlers. She worked in Mansion Manufacturing Co., as the head of manufacturing from August 1986 to March 2002. In March 2002, Ms. So joined our Group as a production manager of Mantex Supplies. Since April 2016, Ms. So has been the general manager of the production department of Martex International.

Ms. Lam Pik Shan Miran (林碧珊), aged 44, is the assistant company secretary of our Company and an accounting manager of Babies Trendyland. Ms. Lam is mainly responsible for overseeing the overall accounting affairs including the internal control and compliance of Babies Trendyland as well as company secretarial matters of our Company.

Ms. Lam has over 20 years of experience in accounting. Ms. Lam joined our Group in October 2009 as an accountant of Babies Trendyland. From September 2013 to August 2014, Ms. Lam worked for Hop Lun (Hong Kong) Limited, a fashion service company that provides services including design development and manufacturing of lingerie, casual wear and swimwear, as a finance and accounting manager. Ms. Lam re-joined our Group in January 2015 as an assistant accounting manager. Since June 2016, Ms. Lam has been an accounting manager of Babies Trendyland.

DIRECTORS AND SENIOR MANAGEMENT

Prior to joining our Group, Ms. Lam worked in HSBC Markets (Asia) Limited, which is a subsidiary of the HSBC Bank Plc, as a senior accounts clerk from September 1993 to December 2001. Ms. Lam worked in Pramac (China) Limited as an accounting manager from June 2002 to April 2007, and in PT Far East Ltd. as an accountant from April 2007 to June 2009.

Ms. Lam has been a member of the Association of Chartered Certified Accountants since March 2008.

COMPANY SECRETARY

Mr. Cho Yee Chun (曹以臻), aged 53, is a deputy managing partner of PKF Tax and Business Consultants Limited, and was appointed as the company secretary of our Company on 5 June 2017. Mr. Cho has over 25 years of experience in business and taxation advisory.

Mr. Cho first joined our Group in December 2011 as the chief operating officer of Mantex Supplies. From October 2012 to March 2016, Mr. Cho was the legal representative, director and manager of Ying Huang, and a supervisor of Min Bo.

Mr. Cho is an associate of the Hong Kong Institute of Certified Public Accountants since April 1993, an associate of the Hong Kong Institute of Company Secretaries since August 1994, and an associate of The Taxation Institute of Hong Kong since May 1995.

COMPLIANCE OFFICER

Mr. Cheung Desmond Lap Wai (張立維) was appointed as the compliance officer of our Company on 6 July 2017. Please refer to the paragraph headed “Directors — Executive Directors” in this section of the prospectus for details of the biography of Mr. Cheung.

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, our Company has appointed Alliance Capital Partners Limited as our compliance adviser, who will have access to all relevant records and information relating to our Company that it may reasonably require to properly perform its duties. Pursuant to Rule 6A.23 of the GEM Listing Rules, our Company must consult with and, if necessary, seek advice from the compliance adviser on a timely basis in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated by our Company, including share issues and share repurchases;
- (iii) where our Company proposes to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate (if any) or other information in this prospectus; and

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- (iv) where the Stock Exchange makes an inquiry of our Company under Rule 17.11 of the GEM Listing Rules.

The terms of appointment shall commence on the Listing Date and end 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, that is, the distribution of our Company's annual report of its financial results for the year ending 31 March 2020, or until the agreement is terminated, whichever is the earlier.

BOARD COMMITTEES

Our Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee.

Audit Committee

Our Company established the Audit Committee pursuant to a resolution of our Directors passed on 28 December 2017 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference of the Audit Committee in compliance with paragraph C.3.3 of the CG Code has been adopted. Among other things, the primary duties of the Audit Committee are to make recommendations to our Board on appointment or reappointment and removal of external auditor; review financial statements of our Company and judgments in respect of financial reporting; and oversee the effectiveness of the procedures of the internal control procedures of our Group. The Audit Committee consists of two independent non-executive Directors and one non-executive Director, namely Mr. Leung Wai Yin, Mr. Cheung Ping Kwan Timothy and Ms. Luk Sau Kuen. Mr. Leung Wai Yin is the chairman of the Audit Committee.

Remuneration Committee

Our Company established the Remuneration Committee pursuant to a resolution of our Directors passed on 28 December 2017 in compliance with Rule 5.34 of the GEM Listing Rules. Written terms of reference of the Remuneration Committee in compliance with paragraph B.1.2 of the CG Code has been adopted. The primary duties of the Remuneration Committee are to make recommendation to our Board on the overall remuneration policy and structure relating to all Directors, senior management and general staff of our Group and ensure that none of our Directors or any of their associates determine their own remuneration. The Remuneration Committee consists of three members, namely Mr. Choi Wing San Wilson, Ms. Luk Sau Kuen and Mr. Leung Wai Yin. Mr. Choi Wing San Wilson is the chairman of the Remuneration Committee.

Nomination committee

Our Company established the Nomination Committee pursuant to a resolution of our Directors passed on 28 December 2017 with written terms of reference in compliance with paragraph A.5.2 of the CG Code. The primary duties of the Nomination Committee are to review the structure, size, diversity and composition of our Board annually; identify individuals suitably qualified to become Board members; assess the independence of our independent non-executive Directors; and make

DIRECTORS AND SENIOR MANAGEMENT

recommendations to our Board on relevant matters relating to appointment or reappointment of our Directors. The Nomination Committee consists of five members, namely Ms. Fung Sau Ying, Mr. Cheung Desmond Lap Wai, Mr. Choi Wing San Wilson, Mr. Cheung Ping Kwan Timothy and Mr. Leung Wai Yin. Ms. Fung Sau Ying is the chairlady of the Nomination Committee.

CORPORATE GOVERNANCE

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. Our Company will comply with the CG Code and the associated GEM Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT'S REMUNERATION

The aggregate amount of fees, salaries, contributions to pension schemes, housing and other allowances, benefits in kind and discretionary bonuses paid to our Directors for FY2016, FY2017 and SP2017 were approximately HK\$9.7 million, HK\$8.2 million and HK\$3.0 million, respectively.

Our Group's five highest paid individuals included three Directors. Excluding those three Directors, the aggregate amount of fees, salaries, contributions to pension schemes, housing and other allowances, benefits in kind and discretionary bonuses paid to the remaining two highest paid individuals for FY2016, FY2017 and SP2017 were approximately HK\$1.6 million, HK\$1.8 million and HK\$0.7 million, respectively.

During the Track Record Period, no remuneration was paid to, or receivable by, our Directors, past directors or our Group's five highest paid employees as an inducement to join or upon joining our Group or as compensation for the 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. During the Track Record Period, none of our Directors had waived or agreed to waive any emolument.

Except as disclosed above, no other payments of remuneration have been made, or are payable, in respect of the Track Record Period, by our Group to or on behalf of any of our Directors.

For additional information on our Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to Note 9 in the Accountants' Report set out in Appendix I to this prospectus.

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.

OVERVIEW

We specialise in the manufacture and sale of baby clothing and clothing accessories for infants and toddlers. We sell these baby fabric products through (i) our OEM business directly to overseas brand companies or the designated sourcing companies mainly located in Hong Kong, UK and US; and (ii) our OBM business under our own brand "mides" and complementary third party brand products through our self-operated retail stores and department store counters in Hong Kong, and wholesale in Hong Kong, the PRC and Macao. During the Track Record Period, our OEM business contributed over 75.0% of our total revenue and for FY2016, FY2017 and SP2017, we had 10, nine and nine OEM customers, respectively.

Our revenue for FY2017 was approximately HK\$335.8 million, representing a decrease of approximately 18.0% as compared with the corresponding figure of approximately HK\$409.8 million for FY2016. Our gross profit for FY2017 was approximately HK\$126.1 million, representing a decrease of approximately 3.8% as compared with the corresponding figure of approximately HK\$131.0 million for FY2016. Our profit after tax for FY2017 was approximately HK\$10.3 million, representing a decrease of 8.1% as compared with the corresponding figure of approximately HK\$11.2 million for FY2016. Our revenue decreased by approximately HK\$38.3 million or 24.2% from approximately HK\$158.0 million for SP2016 to approximately HK\$119.7 million for SP2017 and our gross profit declined by approximately HK\$3.7 million or 6.8% from approximately HK\$54.3 million for SP2016 to approximately HK\$50.6 million for SP2017. We recorded a net loss for SP2017 of approximately HK\$4.8 million, mainly due to the listing expenses of approximately HK\$7.9 million. During the Track Record Period, we experienced revenue decline mainly due to reduced sales orders placed by our two largest customers for FY2016, Next and Gerber in UK and US, respectively, led by (i) the adoption, adjustment and optimisation of our strategy to sell products to our certain OEM customers, such as Mamas & Papas and Impact Imports, with higher profit margin despite similar

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baby clothing products but different complexity with relatively smaller order quantities (as compared to those of Next and Gerber), for their more specified needs or with higher standards; (ii) depreciation of GBP experienced by Next; and (iii) deteriorated sales performance of local mass market in UK and US experienced by both Next and Gerber.

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, we generated our revenue from manufacturing, sourcing and selling of baby clothing and clothing accessories for infants and toddlers through our OEM and OBM business segments. We mainly provide products to internationally-recognised baby clothing brand owners located in UK and US and our OEM business contributed over 75% of our total revenue during the Track Record Period. During the Track Record Period, our OEM business experienced a decrease mainly due to the adoption, adjustment and optimisation of our strategy to sell products to our certain OEM customers, such as Mamas & Papas and Impact Imports, with higher profit margin despite similar baby clothing products but different complexity with relatively smaller order quantities (as compared to those of Next and Gerber), for their more specified needs or with higher standards. Accordingly, if our OEM customers 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 had not entered into long-term contracts with our customers, which was in line with the industry practice as per our Directors' understanding, saved for the wholesale agreements entered with our PRC, Macao and Taiwan business partners. 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 other circumstances affecting consumer demand of our products such as market sentiment 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.

Material costs

Material costs include the costs of raw materials, which represent a significant portion of our Group's cost of sales. For FY2016, FY2017 and SP2017, such costs amounted to approximately HK\$178.8 million, HK\$113.9 million and HK\$37.6 million, representing approximately 64.1%, 54.3% and 54.4% of our cost of sales, respectively. As such, any significant fluctuation in the price of materials may have a significant impact on our Group's profitability.

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Fluctuations in the exchange rate

During the Track Record Period, approximately 80.3%, 76.2% and 77.1% of our Group's revenue was denominated in USD, while approximately 73.4%, 85.7% and 94.2% of our costs were denominated in RMB. Our profit margins will be adversely affected to the extent that we are unable to increase the USD denominated selling prices of our products sold to overseas customers or shift the exchange risk to our customers to account for the appreciation of the RMB against the USD.

Any significant fluctuation in the exchange rates between the RMB and USD may result in increases or decreases in our reported costs and earnings, and may also materially affect our business and results of operations.

As 31 March 2016, 31 March 2017 and 31 August 2017, if the RMB had strengthened/weakened by 5% against the HKD with all other variable held constant, profit for FY2016, FY2017 and SP2017 would have been approximately HK\$1.1 million, HK\$0.9 million and HK\$0.8 million, respectively, lower/higher, mainly as a result of foreign exchange losses/gains on translation of RMB denominated cash and cash equivalents, deposits, prepayments and other receivables, trade payables and accruals and other payables.

Comparable stores

For our OBM business, as a new retail store generally requires a period of time to achieve target revenue, only negligible revenue can be generated at the initial stage. Our result of operations is therefore affected by the opening of retail stores. In order to demonstrate the performance of our retail stores, we defined comparable stores as stores which were operating throughout the full year/period of each of the financial years/periods under comparison. The comparable stores exclude (i) the newly opened stores which were not operating throughout the full year/period of each of the financial years/periods; (ii) the retail stores which had ceased operation in a period of time due to relocation; and (iii) the retail stores which had ceased operation during the respective financial year/period. The table below sets forth the financial information of our comparable stores over the Track Record Period:

	FY2016	FY2017	SP2016 <i>(unaudited)</i>	SP2017
Number of comparable stores				
Self-operated retail stores	8	8	8	8
Department store counters	11	11	11	11
Total	<u>19</u>	<u>19</u>	<u>19</u>	<u>19</u>
Revenue of comparable stores <i>(HK\$'000)</i>	68,082	68,146	24,795	22,760
Profit before taxation for comparable stores <i>(HK\$'000)</i>	20,249	20,545	6,777	6,463
Percentage change of profit before taxation for comparable stores	N/A	1.5%	N/A	-4.6%

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BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 17 May 2017 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.

Sales of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have been passed over, at which time all the following conditions are satisfied:

- our Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- our Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to our Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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Income from sale of consigned goods

Income from sale of consigned goods is recognised when consigned goods are sold and the related risks and rewards of ownership of the goods have been transferred to the customers.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Buildings	10 to 20 years
Leasehold improvements	2 to 10 years or over the lease term whichever is the shorter
Plant and machinery	3 to 5 years
Furniture, fixtures and equipment	3 to 5 years
Motor vehicles	5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

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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 initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

RESULTS OF OPERATIONS

The table below sets out our Group's consolidated statements of profit or loss and other comprehensive income during the Track Record Period, which was derived from the Accountants' Report as set out in Appendix I to this prospectus:

	FY2016	FY2017	SP2016	SP2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(unaudited)</i>	
Revenue	409,765	335,810	158,027	119,663
Cost of sales	<u>(278,745)</u>	<u>(209,711)</u>	<u>(103,760)</u>	<u>(69,070)</u>
Gross profit	131,020	126,099	54,267	50,593
Other income	3,496	3,131	1,835	248
Selling and distribution costs	(42,895)	(42,063)	(17,018)	(15,690)
Administrative and other expenses	(73,658)	(70,578)	(32,780)	(29,752)
Listing expenses	—	(2,129)	—	(7,924)
Finance costs	<u>(2,056)</u>	<u>(2,216)</u>	<u>(692)</u>	<u>(1,075)</u>
Profit/(loss) before tax	15,907	12,244	5,612	(3,600)
Income tax expense	<u>(4,736)</u>	<u>(1,975)</u>	<u>(858)</u>	<u>(1,234)</u>
Total comprehensive income/(loss) for the year/period	<u>11,171</u>	<u>10,269</u>	<u>4,754</u>	<u>(4,834)</u>

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

During the Track Record Period, our revenue was mainly generated from manufacturing, sourcing and selling baby clothing and clothing accessories of infants and toddlers. We sold these baby fabric products through (i) our OEM business directly to the overseas brand companies or designated sourcing companies located in Hong Kong, UK and US; and (ii) our OBM business under our own brand “mides” and complementary third party brand products through our self-operated retail stores and department store counters in Hong Kong, and wholesale in Hong Kong, the PRC and Macao.

For FY2016, FY2017 and SP2017, we generated total revenue of approximately HK\$409.8 million, HK\$335.8 million and HK\$119.7 million, respectively.

A breakdown on revenue of our Group by business segments for the Track Record Period is summarised as below:

	FY2016		FY2017		SP2016		SP2017	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
	<i>(unaudited)</i>							
OEM business	329,428	80.4	256,091	76.3	129,969	82.2	92,269	77.1
OBM business								
- Self-operated retail stores	36,852	9.0	36,194	10.8	12,769	8.1	13,500	11.3
- Department store counters	40,370	9.8	38,758	11.5	13,659	8.7	12,566	10.5
- Wholesale	3,115	0.8	4,767	1.4	1,630	1.0	1,328	1.1
OBM sub-total	80,337	19.6	79,719	23.7	28,058	17.8	27,394	22.9
Total	<u>409,765</u>	<u>100</u>	<u>335,810</u>	<u>100</u>	<u>158,027</u>	<u>100</u>	<u>119,663</u>	<u>100</u>

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A breakdown of our Group's revenue per unit of our own products in OEM and OBM businesses is set out below:

	FY2016			FY2017			SP2016			SP2017		
	Revenue <i>HK\$'000</i>	Unit(s) sold <i>'000</i>	Revenue per unit <i>HK\$</i>	Revenue <i>HK\$'000</i>	Unit(s) sold <i>'000</i>	Revenue per unit <i>HK\$</i>	Revenue <i>HK\$'000</i>	Unit(s) sold <i>'000</i>	Revenue per unit <i>HK\$</i>	Revenue <i>HK\$'000</i>	Unit(s) sold <i>'000</i>	Revenue per unit <i>HK\$</i>
	<i>(unaudited)</i>											
OEM business												
- Baby clothing	193,348	7,716	25.1	180,408	6,824	26.4	86,115	3,311	26.0	60,164	2,228	27.0
- Clothing accessories	136,080	21,890	6.2	75,683	11,168	6.8	43,854	6,560	6.7	32,105	3,820	8.4
Sub-total	<u>329,428</u>	<u>29,606</u>	11.1	<u>256,091</u>	<u>17,992</u>	14.2	<u>129,969</u>	<u>9,871</u>	13.2	<u>92,269</u>	<u>6,048</u>	15.3
OBM business												
- Baby clothing	50,880	361	140.9	48,982	414	118.3	15,811	137	115.4	16,902	138	122.5
- Clothing accessories	18,162	170	106.8	18,865	197	95.8	6,623	62	106.8	6,298	58	108.6
Sub-total	<u>69,042</u>	<u>531</u>	130.0	<u>67,847</u>	<u>611</u>	111.0	<u>22,434</u>	<u>199</u>	112.7	<u>23,200</u>	<u>196</u>	118.4
Complementary third party brand products	11,295	134	84.3	11,872	174	68.2	5,624	61	92.2	4,194	59	71.1
Total	<u>409,765</u>	<u>30,271</u>	13.5	<u>335,810</u>	<u>18,777</u>	17.9	<u>158,027</u>	<u>10,131</u>	15.6	<u>119,663</u>	<u>6,303</u>	19.0

Our revenue decreased by approximately 18.0% from approximately HK\$409.8 million for FY2016 to approximately HK\$335.8 million for FY2017 and decreased by approximately 24.2% from approximately HK\$158.0 million for SP2016 to approximately HK\$119.7 million for SP2017. While the revenue from our OBM business was relatively stable during the Track Record Period, our revenue from our OEM business has declined by approximately 22.3% from approximately HK\$329.4 million for FY2016 to approximately HK\$256.1 million for FY2017 and declined by approximately 29.0% from approximately HK\$130.0 million for SP2016 to approximately HK\$92.3 million for SP2017.

Our Directors believe that such decrease was mainly due to reduced sales orders placed by our two largest customers for FY2016, Next in UK and Gerber in US, led by (i) the adoption, adjustment and optimisation of our strategy to sell products to our major OEM customers, such as Mamas & Papas and Impact Imports, with higher profit margin despite similar baby clothing products but different complexity with relatively smaller order quantities (as compared to those of Next and Gerber), for their more specified needs or higher standards; (ii) depreciation of GBP experienced by Next; and (iii) deteriorated sales performance of local mass markets in UK and US experienced by Next and Gerber, respectively. For details, please refer to the section headed "Business — Our customers" of this prospectus.

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Cost of sales

Our cost of sales primarily consists of material costs, direct labour costs, subcontracting costs and depreciation on machinery. A breakdown of the cost of sales during the Track Record Period is set out below:

	FY2016		FY2017		SP2016		SP2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
					<i>(unaudited)</i>			
Material costs	178,753	64.1	113,871	54.3	61,363	59.2	37,550	54.4
Direct labour costs	65,684	23.6	67,145	32.0	23,752	22.9	20,020	29.0
Subcontracting costs	22,167	8.0	16,347	7.8	8,638	8.3	1,603	2.3
Depreciation on machinery	1,624	0.6	1,357	0.6	644	0.6	385	0.6
Utilities	2,067	0.7	1,997	1.0	947	0.9	834	1.2
Others	8,450	3.0	8,994	4.3	8,416	8.1	8,678	12.5
	<u>278,745</u>	<u>100</u>	<u>209,711</u>	<u>100</u>	<u>103,760</u>	<u>100</u>	<u>69,070</u>	<u>100</u>

Material costs

The largest component of our cost of sales was material costs, which amounted to approximately HK\$178.8 million, HK\$113.9 million and HK\$37.6 million, representing approximately 64.1%, 54.3% and 54.4% of our cost of sales for FY2016, FY2017 and SP2017, respectively. Our material costs mainly represent purchase of our principal raw materials used in the production of our products which are cotton fabric and buttons. The decrease in material costs was mainly due to the decrease in our quantity of products sold.

Direct labour costs

Direct labour costs mainly comprised salaries, wages, bonus and allowance provided for our workers who are directly involved in the production process.

Subcontracting costs

The subcontracting costs were services fees we paid to our subcontractors for the provision production services in certain production processes. As disclosed in section headed “Business — Our suppliers and subcontractors” in this prospectus, we outsourced certain processes due to the special production technique required by our OEM customers and the availability of our own labour resources.

Depreciation on machinery

Depreciation represented depreciation charges in respect of our machinery which are directly used in the production process.

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Utilities

Utilities represented electricity and water charges (directly used in our Group's production process) during the Track Record Period.

Others

Others mainly consists of (i) indirect labour cost; (ii) rent and rates; (iii) consumables; (iv) other manufacturing overhead such as replacement of parts of machinery and repair and maintenance expenses; and (v) 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 cost of sales during the Track Record Period.

Sensitivity analysis

Material costs

For FY2016, FY2017 and SP2017, we procured cotton fabric of approximately HK\$93.0 million, HK\$67.2 million and HK\$25.3 million, respectively, representing approximately 74.7%, 73.2% and 75.6% of our total purchase of raw materials and accessories in the manufacturing process. Our Directors consider that the changes to the price of cotton fabric may affect our material costs. The following table illustrates the sensitivity analysis of the estimated increase/decrease of our profit before income tax in relation to general percentage changes to the prices of material costs. The rates are set at 8.2% and -8.2%, which correspond to the historical change in average unit cost of cotton fabric used in our production during Track Record Period and our Directors consider it reasonable for the purpose of this sensitivity analysis:

	Impact on profit before income tax			
	FY2016	FY2017	SP2016	SP2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Change in material cost				
8.2%	(14,658)	(9,337)	(5,032)	(3,079)
-8.2%	14,658	9,337	5,032	3,079

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Direct labour costs

The following table illustrates the sensitivity analysis of the estimated increase/decrease of our profit before income tax in relation to general percentage changes to the prices of direct labour costs. The rates are set at 4.7% and -4.7%, which correspond to the historical change in average wage of workers employed for our production function during Track Record Period and our Directors consider it reasonable for the purpose of this sensitivity analysis:

	Impact on profit before income tax			
	FY2016	FY2017	SP2016	SP2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Change in direct labour cost				
4.7%	(3,087)	(3,156)	(1,116)	(941)
-4.7%	3,087	3,156	1,116	941

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 business segments:

	FY2016		FY2017		SP2016		SP2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
OEM business	67,035	20.3	67,189	26.2	32,376	24.9	28,110	30.5
OBM business								
- Self-operated retail stores	29,300	79.5	25,809	71.3	9,553	74.8	11,272	83.5
- Department store counters	33,259	82.4	31,684	81.7	11,902	87.1	10,811	86.0
- Wholesale	<u>1,426</u>	45.8	<u>1,417</u>	29.7	<u>436</u>	26.8	<u>400</u>	30.1
OBM business sub-total	<u>63,985</u>	79.6	<u>58,910</u>	73.9	<u>21,891</u>	78.0	<u>22,483</u>	82.1
	<u>131,020</u>	<u>32.0</u>	<u>126,099</u>	<u>37.6</u>	<u>54,267</u>	<u>34.3</u>	<u>50,593</u>	<u>42.3</u>

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The gross profit margin of our OBM business was higher than that of our OEM business in general given that we designed and produced our own products under our own brands, and sold them through our own sales networks. The gross profit margin of our OEM business has improved from approximately 20.3% in FY2016 to approximately 26.2% in FY2017 because of the change in our strategy leading to the increase in proportion of sales volume of baby clothing from approximately 26.1% for FY2016 to approximately 37.9% for FY2017, which generally generated higher profit margin than clothing accessories given their high complexity. The gross profit margin of our OEM business for SP2017 has further improved to approximately 30.5%, mainly due to the decrease in sales to Next and Gerber which were of lower gross profit margin as described in the section headed “Business — Our customers” and increase in sales to other customers.

However, the gross profit margin of our OBM business experienced a decrease in each sales channel for FY2017 as compared to FY2016. The gross profit margin of self-operated retail stores reduced from approximately 79.5% to 71.3% due to the fact that we provided clearance discount for certain third party brand products in our self-operated retail stores in FY2017. We also launched additional promotional events and provided our members with discount on our products during FY2017 which were available only in our self-operated retail stores. The gross profit margin of wholesales also reduced from approximately 45.8% to 29.7% as we offered a deeper discount to our business partner in the PRC in support of its launch of the online store in the PRC.

The gross profit margin of our OBM business for SP2017 has improved from approximately 78.0% for SP2016 to approximately 82.1% for SP2017, which was attributable to the decrease in quantity of third party brand products sold that were generally sold at a relatively lower gross profit margin given that some of those products were put in our self-operated retail stores for sale on consignment basis. Compared with SP2016, our products sold in SP2017 comprised a higher portion of products under our own brand, “mides”, which were generally sold at a higher gross profit margin as compared to that of third parties brand products.

Other income

The table below sets forth a breakdown of our Group’s other income by nature during the Track Record Period:

	FY2016	FY2017	SP2016	SP2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>			
Bank interest income	14	10	3	2
Service income	800	1,066	384	—
Sundry income	659	1,620	941	246
Exchange gain	2,023	435	507	—
	<u>3,496</u>	<u>3,131</u>	<u>1,835</u>	<u>248</u>

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Our Group's other income mainly comprises bank interest income, service income, sundry income (including over-statement of provision of bonuses, gains on disposal of property, plant and equipment, refund of Mandatory Provident Fund and insurance compensation income) and exchange gain.

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.

Selling and distribution costs

The table below sets forth a breakdown of our Group's selling and distribution costs by nature during the Track Record Period:

	FY2016		FY2017		SP2016		SP2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
					<i>(unaudited)</i>			
Rent and rates	26,970	62.9	26,878	63.9	10,551	62.0	10,657	67.9
Staff commission	9,439	22.0	8,482	20.2	3,630	21.3	3,080	19.6
Transportation	2,891	6.7	2,359	5.6	1,279	7.5	718	4.6
Advertising and promotion fee	1,274	2.9	1,537	3.7	599	3.5	301	1.9
Inspection, sample and testing charges	941	2.2	1,204	2.9	424	2.5	387	2.5
Others	1,380	3.3	1,603	3.7	535	3.2	547	3.5
	42,895	100	42,063	100	17,018	100	15,690	100

Our Group's selling and distribution cost mainly comprise rent and rates, staff commission, transportation, advertising and promotion fee, inspection, sample and testing charges and credit card charges.

During the Track Record Period, rent and rates accounted for approximately 62.9%, 63.9% and 67.9% of total selling and distribution costs. Most of the leases of our retail stores and counters were subject to fixed rents or a certain percentage of monthly gross sales revenue, whichever is higher. As at 31 March 2016, 31 March 2017 and 31 August 2017, we had 22, 23 and 23 point of sales (including both retail stores and department store counters), respectively, and therefore, the rent and rates remained stable during the Track Record Period.

The decrease of staff commission from approximately HK\$9.4 million for FY2016 to approximately HK\$8.5 million for FY2017 was the result of the decline of our revenue. Likewise, the decrease in staff commission and transportation costs from approximately HK\$3.6 million and approximately HK\$1.3, respectively, for SP2016, to approximately HK\$3.1 million and approximately HK\$0.7 million, respectively, for SP2017 was primarily attributable to lower revenue in SP2017.

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Administrative and other expenses

Administrative and other expenses mainly include staff costs and benefits, office expenses, depreciation, rental and rates, and other administrative expenses. The following table sets out a breakdown of our administrative and other expenses for the years/periods indicated:

	FY2016		FY2017		SP2016		SP2017	
	HK'000	%	HK'000	%	HK'000	%	HK'000	%
	<i>(unaudited)</i>							
Staff costs and benefits (including director's remuneration)	52,713	71.6	52,924	75.0	24,086	73.5	22,211	74.7
Office expenses	4,752	6.5	4,950	7.0	2,363	7.2	2,265	7.6
Depreciation and amortisation	4,574	6.2	3,301	4.7	1,177	3.6	1,309	4.4
Rent and rates	3,323	4.5	3,693	5.2	1,543	4.7	1,566	5.3
Others <i>(Note)</i>	8,296	11.2	5,710	8.1	3,611	11.0	2,401	8.0
	<u>73,658</u>	<u>100</u>	<u>70,578</u>	<u>100</u>	<u>32,780</u>	<u>100</u>	<u>29,752</u>	<u>100</u>

Note: It presents entertainment expenses, audit and professional fee, building management fee, impairment loss, fixed assets written off, provision for doubtful debts on other receivables relating to the deposit paid to a supplier prior to the Track Record Period, and bank charges.

Staff costs and benefits

Staff costs in administrative expenses include directors' emoluments and management, administrative and operational staff costs.

Directors' remuneration and benefits include directors' salaries, allowance, bonus, mandatory provident fund contribution. For FY2016, FY2017 and SP2017, directors' remuneration and benefits, which amounted to approximately HK\$9.7 million, HK\$8.2 million and HK\$3.0 million respectively, were recorded in administrative expenses under staff costs.

Depreciation and amortisation

Depreciation in administrative expenses mainly represents depreciation of our leasehold improvement, office equipment and furniture and fixtures and amortisation of land use right.

Office expenses

Office expenses mainly include security fee and catering expenses.

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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.

Listing expenses

Listing expenses of approximately HK\$2.1 million and HK\$7.9 million were charged in FY2017 and SP2017, respectively 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 Hong Kong profits tax at a rate of 16.5% on the estimated assessable profits arising in Hong Kong and the PRC Enterprise Income Tax (“**PRC EIT**”) at a rate of 25%. The income tax expenses recorded in the consolidated statements of profit or loss and other comprehensive income during the Track Record Period represent:

	FY2016	FY2017	SP2016	SP2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(unaudited)</i>	
Current tax				
- tax for the years/periods	3,847	2,885	1,638	1,289
- under/(over) provision in respect of prior years/periods	<u>401</u>	<u>19</u>	<u>—</u>	<u>(55)</u>
	<u>4,248</u>	<u>2,904</u>	<u>1,638</u>	<u>1,234</u>
Deferred tax				
- current years/periods	<u>488</u>	<u>(929)</u>	<u>(780)</u>	<u>—</u>
Income tax expenses	<u><u>4,736</u></u>	<u><u>1,975</u></u>	<u><u>858</u></u>	<u><u>1,234</u></u>

Our Group is subject to Hong Kong profits tax at a rate of 16.5% on the estimated assessable profits arising in Hong Kong and the PRC EIT at a rate of 25%. Income tax expenses of approximately HK\$4.7 million and HK\$2.0 million were recognised for FY2016 and FY2017, respectively. Our effective tax rates were approximately 29.8% and 16.1% for FY2016 and FY2017, respectively.

For SP2016 and SP2017, we incurred income tax expenses of approximately HK\$0.9 million and HK\$1.2 million, respectively. Our effective tax rates were approximately 15.3% for SP2016 and -34.2% for SP2017.

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PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

FY2017 compared to FY2016

Revenue

Our revenue decreased from approximately HK\$409.8 million for FY2016 to approximately HK\$335.8 million for FY2017, representing a decrease of approximately HK\$74.0 million or 18.0%. Such decrease was mainly due to reduced sales orders placed by our two largest customers for FY2016, Next and Gerber in UK and US, respectively, led by (i) the adoption, adjustment and optimisation of our strategy to sell products to our certain OEM customers, such as Mamas & Papas and Impact Imports, with higher profit margin despite similar baby clothing products but different complexity with relatively smaller order quantities (as compared to those of Next and Gerber), for their more specified needs or with higher standards; (ii) depreciation of GBP experienced by Next; and (iii) deteriorated sales performance of local mass market in UK and US experienced by both Next and Gerber. The revenue generated from Next has decreased by approximately 45.6% from approximately HK\$120.0 million for FY2016 to approximately HK\$65.2 million for FY2017; while the revenue generated from Gerber has decreased by approximately 39.8% from approximately HK\$94.1 million to approximately HK\$56.7 million. For details, please refer to the section headed “Business — Our customers” of this prospectus.

Cost of sales

The cost of sales decreased from approximately HK\$278.7 million for FY2016 to approximately HK\$209.7 million for FY2017, representing a decrease of 24.8% or approximately HK\$69.0 million.

Such decrease was mainly due to the decrease of material costs attributable to the decrease in quantity of products sold, in particular, clothing accessories, of which cotton fabric represented a major component of the cost. As a result, material costs of cotton fabric for FY2017 decreased by approximately HK\$25.8 million or approximately 27.7%.

Gross profit and gross profit margin

Our gross profit decreased from approximately HK\$131.0 million for FY2016 to approximately HK\$126.1 million for FY2017, representing a decrease of approximately HK\$4.9 million or 3.8%, which followed the direction of our decrease in revenue during the Track Record Period.

Our gross profit margin increased from approximately 32.0% for FY2016 to approximately 37.6% for FY2017. Such increase was mainly due to the increase of proportion of sales volume of baby clothing from approximately 26.1% for FY2016 to approximately 37.9% for FY2017. Compared with clothing accessories, our baby clothing products are able to generate a higher profit margin.

The gross profit margin of our OBM business was higher than that of our OEM business in general given that we designed and produced our own products under our own brands, and sold them through our own sales networks. The gross profit margin of our OEM business has improved from

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approximately 20.3% in FY2016 to approximately 26.2% in FY2017 because of the change of our strategy leading to the increase of proportion of sales volume of baby clothing from approximately 26.1% for FY2016 to approximately 37.9% for FY2017, which generally generated higher profit margin than clothing accessories given their high complexity.

Other income

Our other income decreased from approximately HK\$3.5 million for FY2016 to approximately HK\$3.1 million for FY2017 as a result of the decrease of exchange gain from approximately HK\$2.0 million for FY2016 to approximately HK\$0.4 million for FY2017 partially offset by the increase of sundry income from approximately HK\$0.7 million for FY2016 to approximately HK\$1.6 million for FY2017. Increase in sundry income was mainly attributable to the receipt from the Mandatory Provident Fund trustee the accrued benefit from the employer's portion in an employee's Mandatory Provident Fund account in accordance with the Mandatory Provident Fund Schemes Ordinance and over-statement of provision of bonuses, offsetting partially by the long service payment which our Group had paid to the said employee in full upon his retirement.

Selling and distribution costs

Our selling and distribution costs slightly decreased by approximately HK\$0.8 million, or 1.9%, from HK\$42.9 million for FY2016 to approximately HK\$42.1 million for FY2017.

Administrative and other expenses

Our administrative and other expenses decreased from approximately HK\$73.7 million for FY2016 to approximately HK\$70.6 million for FY2017. Such difference was mainly due to (i) the loss on disposal of our subsidiaries of Min Bo and Ying Huang both in March 2016; and (ii) the depreciation of disposal of our plant and equipment.

Income tax expenses

Income tax expenses for FY2017 amounted to approximately HK\$2.0 million, representing a decrease of approximately HK\$2.8 million, or approximately 58.3%, from the income tax expenses for FY2016 of approximately HK\$4.7 million, which was a combined effect of current tax and deferred tax. Our Group recorded higher non-deductible tax expenses, comprising certain disallowed production costs including depreciation and cost of sales, bank interests and charges and loss on subsidiaries deregistration, in FY2016 than in FY2017, resulting in incurrence of higher tax expenses for FY2016. The difference of deferred tax charge for FY2016 and FY2017 amounted to approximately HK\$1.4 million.

Profit after tax and net profit margin

As a result of the foregoing, our profit for FY2016 and FY2017 was approximately HK\$11.2 million and HK\$10.3 million, respectively. Our net profit margin for FY2016 and FY2017 was approximately 2.7% and 3.1%, respectively.

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SP2017 compared to SP2016

Revenue

Our revenue decreased by approximately HK\$38.3 million or approximately 24.2% from approximately HK\$158.0 million for SP2016 to approximately HK\$119.7 million for SP2017. Such decrease was mainly due to the reduction of sales orders placed by Next and Gerber. For details, please refer to the section headed “Business — Our customers” of this prospectus.

Cost of sales

The cost of sales decreased from approximately HK\$103.8 million for SP2016 to approximately HK\$69.1 million for SP2017, representing a decrease of approximately HK\$34.7 million or 33.4%.

Among which, the material costs decreased from approximately HK\$61.4 million for SP2016 to approximately HK\$37.6 million for SP2017, representing a decrease by approximately 38.8%. Such decrease was in line with the decrease in number of products sold in SP2017. Following the reduction in sales to Next and Gerber, the number of products sold decreased from approximately 9.9 million units for SP2016, to approximately 6.0 million units in SP2017, representing a decrease of approximately 38.7%.

The decrease in material costs was mainly attributable to the reduction in sales to Next and Gerber, mostly for Basic Products and clothing accessories, respectively, which were simple in design and involved less labour cost in general. The raw materials cost as a proportion of the total production cost for those products manufactured for Next and Gerber during the Track Record Period were therefore usually higher than those for other customers.

Gross profit and gross profit margin

Our gross profit decreased from approximately HK\$54.3 million for SP2016 to approximately HK\$50.6 million for SP2017, representing a decrease of approximately HK\$3.7 million or 6.8%; however, our gross profit margin increased from approximately 34.3% for SP2016 to approximately 42.3% for SP2017. Such increase in our gross profit margin was mainly due to the adjustment of our strategy to enhance our profitability by actively seeking sales orders from major OEM customers with higher gross profit margin and at the same time, decreasing our sales to Next and Gerber.

Other income

Our other income decreased from approximately HK\$1.8 million for SP2016 to approximately HK\$0.2 million for SP2017, mainly due to (i) the decrease in sundry income from approximately HK\$0.9 million for SP2016 to approximately HK\$0.2 million for SP2017, (ii) cessation to have service income, and (iii) cessation to have exchange gain due to appreciation of RMB in SP2017.

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Selling and distribution costs

Our selling and distribution costs decreased from approximately HK\$17.0 million for SP2016 to approximately HK\$15.7 million for SP2017, mainly due to the decrease in staff commission of approximately HK\$0.6 million and transportation costs of approximately HK\$0.6 million as a result of the decrease in revenue in SP2017.

Administrative and other expenses

Our administrative and other expenses decreased from approximately HK\$32.8 million for SP2016 to approximately HK\$29.8 million for SP2017. Such difference was primarily as a result of the drop in salary and staff benefit by approximately HK\$1.9 million from approximately HK\$24.1 million for SP2016 to approximately HK\$22.2 million for SP2017 due to the decrease in number of staff members in the Hong Kong office, and decrease in bonus to our Directors in SP2017.

Income tax expenses

Income tax expenses for SP2017 amounted to approximately HK\$1.2 million, representing an increase of approximately HK\$0.3 million, or approximately 43.8%, from the income tax expenses for SP2016 of approximately HK\$0.9 million, which was a combined effect of current tax and deferred tax. Our Group recorded lower revenue and higher non-deductible tax expenses in SP2017 than in SP2016, resulting in incurrence of lower current tax expenses of approximately HK\$0.4 million. The difference in deferred tax for SP2016 and SP2017 amounted to approximately HK\$0.8 million.

Profit after tax and net profit margin

Our profit for SP2016 was approximately HK\$4.8 million, representing the net profit margin of approximately 3.0%. We recorded a loss of approximately HK\$4.8 million for SP2017 mainly due to listing expenses of approximately HK\$7.9 million incurred for SP2017.

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NET CURRENT ASSETS

We recorded net current assets of approximately HK\$15.4 million, HK\$23.8 million and HK\$18.5 million as at 31 March 2016, 31 March 2017 and 31 August 2017, respectively. The table below sets forth our current assets and current liabilities as of the dates indicated:

	As at 31 March		As at 31 August	As at 30 November
	2016	2017	2017	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>
Current assets				
Inventories	67,478	51,140	51,180	53,302
Trade receivables	16,344	24,266	40,391	43,106
Deposits, prepayments and other receivables	4,607	5,227	9,251	11,086
Amount due from related companies	6,333	6,772	—	—
Amount due from a director	32,732	9,908	16,349	15,696
Tax refundable	—	—	—	1,510
Cash and cash equivalents	<u>12,176</u>	<u>26,714</u>	<u>19,128</u>	<u>26,152</u>
	<u>139,670</u>	<u>124,027</u>	<u>136,299</u>	<u>150,852</u>
Current liabilities				
Trade and bills payable	44,583	35,553	35,748	37,553
Accruals and other payables	16,594	15,412	14,938	17,120
Amounts due to a related company	1,790	1,548	—	—
Loan from a shareholder	5,000	10,000	10,000	10,000
Bank borrowings	53,189	36,095	56,374	63,977
Finance lease liabilities	625	213	87	88
Tax payables	<u>2,481</u>	<u>1,419</u>	<u>667</u>	<u>—</u>
	<u>124,262</u>	<u>100,240</u>	<u>117,814</u>	<u>128,738</u>
Net current assets	<u><u>15,408</u></u>	<u><u>23,787</u></u>	<u><u>18,485</u></u>	<u><u>22,114</u></u>

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Our net current assets increased by approximately HK\$8.4 million from approximately HK\$15.4 million as at 31 March 2016 to approximately HK\$23.8 million as at 31 March 2017 primarily due to (i) an increase in trade receivables of approximately HK\$7.9 million driven by the increase in sales to Mamas & Papas and Impact Imports in FY2017 which had a longer credit period than Next and Gerber which were our two largest customers in FY2016; (ii) an increase in our cash and cash equivalents of approximately HK\$14.5 million; (iii) a decrease in trade and bills payables of approximately HK\$9.0 million mainly due to decrease in sales orders in April 2017 and May 2017, as compared to the corresponding period in previous year; and (iv) a decrease of bank borrowings of approximately HK\$17.1 million due to repayment of bank loan. These amounts were partially offset by (i) a decrease in our inventories of approximately HK\$16.3 million due to decrease in sales orders in April 2017 and May 2017 as described above and (ii) a decrease of amount due from a director of approximately HK\$22.8 million resulting from partial settlement of director's current accounts with our Group.

Our net current assets reduced by approximately HK\$5.3 million from approximately HK\$23.8 million as at 31 March 2017 to approximately HK\$18.5 million as at 31 August 2017, primarily due to increase in bank borrowings of approximately HK\$20.3 million, which was partly offset by the increase in trade receivables of approximately HK\$16.1 million.

Increase in trade receivables as at 31 August 2017 as compared to that as at 31 March 2017 was mainly attributable to (i) increase in aggregate sales in July and August 2017 by approximately 45.3% as compared to the aggregate sales recognised in February and March 2017; and (ii) increase in trade receivables attributable to Mamas & Papas, Impact Imports and Acorn by approximately HK\$8.1 million, HK\$13.9 million and HK\$5.7 million, respectively, as a result of the aforementioned increased sales.

Our net current assets increased by approximately HK\$3.6 million from approximately HK\$18.5 million as at 31 August 2017 to approximately HK\$22.1 million as at 30 November 2017, primarily due to (i) increase in inventories of approximately HK\$2.1 million due to the increase in sales order for delivery in subsequent months; and (ii) increase in trade receivables of approximately HK\$2.7 million resulting from increase in sales in October 2017 and November 2017 driven by seasonality, which was partially offset by increase in trade and bills payables of approximately HK\$1.8 million driven by increase in purchase of raw materials in November 2017.

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DESCRIPTION OF SELECTED ITEMS OF CONSOLIDATED BALANCE SHEETS

Further discussion of the fluctuation in the key components of our net current assets is set forth in the following paragraphs.

Property, plant and equipment

Property, plant and equipment of our Group represent buildings, leasehold improvements, plant and machinery, furniture, fixtures and equipment, motor vehicles. The following table sets forth the carrying values of our property, plant and equipment as of the dates indicated:

	As at 31 March		As at
	2016	2017	31 August
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Buildings	1,887	1,429	1,504
Leasehold improvements	4,098	4,033	4,165
Plant and machinery	7,144	6,898	7,084
Furniture, fixtures and equipment	2,083	1,441	2,526
Motor vehicles	581	375	311
Total	15,793	14,176	15,590

The overall carrying values of our property, plant and equipment as at 31 March 2017 decreased by approximately HK\$1.6 million mainly due to the carrying values of furniture, fixtures and equipment from approximately HK\$2.1 million as at 31 March 2016 to approximately HK\$1.4 million as at 31 March 2017. The overall carrying values of our property, plant and equipment as at 31 August 2017 increased by approximately HK\$1.4 million mainly due to the increase in the carrying values of furniture, fixtures and equipment of approximately HK\$1.1 million resulting from replacement of office computer equipment and the implementation of our new point of sale system for OBM business.

Inventories

Our inventories primarily represent (i) raw materials which are mainly cotton fabric and buttons; (ii) work in progress; and (iii) finished goods which are products ready for sale.

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As at 31 March 2016, 31 March 2017 and 31 August 2017, our inventories represented 48.3%, 41.2% and 37.2% of our current assets, respectively. The following table sets forth our ending inventory balances as of the dates indicated:

	As at 31 March		As at
	2016	2017	31 August
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	24,632	20,527	21,431
Work in progress	23,016	12,598	11,398
Finished goods	<u>19,830</u>	<u>18,015</u>	<u>18,351</u>
	<u>67,478</u>	<u>51,140</u>	<u>51,180</u>
Inventory turnover days ^(Note)	<u>88.4 days</u>	<u>89.0 days</u>	<u>113.4 days</u>

Note: Inventory turnover days is calculated based on ending inventory balances for the year/period divided by cost of sales for the year/period and multiplied by the number of days of the year/period (i.e. 365 days for FY2016 and FY2017 and 153 days for SP2017).

Our inventories decreased by 24.2% from approximately HK\$67.5 million as at 31 March 2016 to approximately HK\$51.1 million as at 31 March 2017. For FY2016 and FY2017, our inventories turnover days remained fairly constant at approximately 88.4 days to 89.0 days, respectively.

Our inventories as at 31 August 2017 remained at a similar level compared to the inventories as at 31 March 2017. The increase in inventory turnover days to 113.4 days for SP2017 was due to decrease in cost of sales during SP2017, which was in line with the decrease in revenue for the period, while our Group had to maintain the similar inventory level to cater for the expected production and sales volume in subsequent months.

Among the inventory of approximately HK\$51.2 million as at 31 August 2017, approximately HK\$29.3 million, representing 57.2% of which, had been subsequently utilised as at 30 November 2017.

Trade receivables

Our trade receivables were approximately HK\$16.3 million, HK\$24.3 million and HK\$40.4 million as at 31 March 2016, 31 March 2017 and 31 August 2017, respectively.

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The following table sets forth the ageing analysis of our trade receivables bases on invoice date as of the dates indicated:

	As at 31 March		As at
	2016	2017	31 August
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i>
			<i>HK\$'000</i>
Within 30 days	11,468	20,290	24,405
31-365 days	4,599	3,976	15,986
More than one year	<u>277</u>	<u>—</u>	<u>—</u>
	<u>16,344</u>	<u>24,266</u>	<u>40,391</u>

The following table sets forth our trade receivables turnover days for the periods indicated:

	FY2016	FY2017	SP2017
Trade receivables turnover days <i>(Note)</i>	<u>14.6 days</u>	<u>26.4 days</u>	<u>51.6 days</u>

Note: It is calculated based on ending balance of trade receivables (net of allowance for doubtful debts) for the period, divided by revenue for the period, then multiplied by the number of days of the period (i.e. 365 days for FY2016 and FY2017 and 153 days for SP2017).

For FY2016, FY2017 and SP2017, our trade receivables turnover days were approximately 14.6 days, 26.4 days and 51.6 days, respectively. We generally offer our customers a credit period ranging from 30 to 90 days from date of invoice, and the trade receivables turnover days are within the credit term. We have not provided for trade receivables over one year, as our Directors consider the default risk of these trade receivables is insignificant after taking into account their credibility. For the trade receivables as at 31 March 2016, 31 March 2017 and 31 August 2017, approximately 100%, 100% and 98.3% had been settled by 30 November 2017.

The increase of trade receivable and trade receivables turnover days for FY2017 was mainly due to the increase of sales to Mamas & Papas and Impact Imports for FY2017, which had a longer credit period than Next and Gerber, who were our two largest customers for FY2016, and increase in trade receivables attributable to Impact Imports resulting from increase in sales from approximately HK\$33.1 million in FY2016 to approximately HK\$42.1 million in FY2017; around 70% of such increase in sales, or around HK\$6 million, was recognised in February and March 2017.

Increase in trade receivables as at 31 August 2017 as compared to that as at 31 March 2017 was mainly attributable to the increase in aggregate sales in July and August 2017 by approximately 45.3% as compared to the aggregate sales recognised in February and March 2017 which led to the increase in trade receivables attributable to Mamas & Papas, Impact Imports and Acorn by approximately HK\$8.1 million, HK\$13.9 million and HK\$5.7 million, respectively.

FINANCIAL INFORMATION

Deposits, prepayment and other receivables

Our Group's deposits, prepayments and other receivables as at 31 March 2016, 31 March 2017 and 31 August 2017 amounted to approximately HK\$4.6 million, HK\$5.2 million and HK\$9.3 million, respectively, details of which are set out below:

	As at 31 March		As at
	2016	2017	31 August
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i>
Deposits	2,082	2,241	2,097
Prepayment	845	2,815	5,570
Other receivables	1,680	171	1,584
	<u>4,607</u>	<u>5,227</u>	<u>9,251</u>

The increase in deposits, prepayments and other receivables from approximately HK\$5.2 million as at 31 March 2017 to approximately HK\$9.3 million as at 31 August 2017 was mainly driven by the increase in prepayments of approximately HK\$2.8 million. The prepayment mainly included listing expenses of approximately HK\$3.3 million to be deducted from equity upon Listing.

Amounts due from related companies

The following table sets forth the amounts due from related companies as of the dates indicated:

	As at 31 March		As at
	2016	2017	31 August
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i>
Amount due from Mansion Corporate Limited	65	2	—
Amount due from Friendly Limited	6,250	6,724	—
Amount due from Mansion Consultancy Limited	7	16	—
Amount due from Alpha Leap Limited	1	1	—
Amount due from Mently Limited	7	26	—
Amount due from Mansion Manufacturing Industries Limited	3	3	—
	<u>6,333</u>	<u>6,772</u>	<u>—</u>

The amounts were unsecured, interest-free and repayable on demand. As at 31 August 2017, all of the amounts due from related companies had been fully settled. Ms. Fung has beneficial interests in these related companies.

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Amount due from a director

As at 31 March 2016, 31 March 2017 and 31 August 2017, the amount due from a director amounted to approximately HK\$32.7 million, HK\$9.9 million and HK\$16.3 million, respectively, representing mainly the mortgage payment made by our Group on behalf of Ms. Fung and the remaining balance after setting off current accounts of companies beneficially held by Ms. Fung.

The aforesaid amounts were non-trade related, unsecured, interest-free and repayable on demand, and will be settled prior to Listing.

Amount due to a related company

As at 31 March 2016, 31 March 2017 and 31 August 2017, the amounts mainly represented the housing allowance for Ms. Fung, our executive Director, chairlady and chief executive officer, of approximately HK\$1.8 million, HK\$1.5 million and Nil, respectively. Such property was owned by a related company.

The aforesaid amounts were non-trade related, unsecured, interest-free and repayable on demand, and the amount had been settled on 31 August 2017.

Trade and bills payables

The trade and bills payables breakdown of our Group as of the dates indicated is as follow:

	As at 2016	2017	As at 31 August 2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	26,491	19,813	16,499
Bills payables	18,092	15,740	19,249
Total trade and bills payables	44,583	35,553	35,748

Trade payables mainly represent amounts payable to suppliers for material costs and subcontracting charges. Bills payables represent the amount of bank facilities from the two banks utilised in settlement of suppliers' bills.

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The following table sets forth our trade payables turnover days for the years/periods indicated:

	FY2016	FY2017	SP2017
Trade payables turnover days ^(Note)	<u>34.7 days</u>	<u>34.5 days</u>	<u>36.5 days</u>

Note: Trade payables turnover days is calculated based on ending balance of trade payables for the year/period, divided by cost of sales for the year/period, then multiplied by the number of days of the year/period (i.e. 365 days for FY2016 and FY2017 and 153 days for SP2017).

For FY2016, FY2017 and SP2017, our trade payables turnover days were approximately 34.7 days, 34.5 days and 36.5 days respectively, which were stable and within the range of the credit period of 30 to 60 days.

The following table sets forth the ageing analysis of our Group's trade payables based on invoice dates at the end of each reporting period:

	As at 31 March		As at 31 August
	2016	2017	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	16,824	9,310	8,207
31-365 days	8,983	10,354	8,255
More than one year	<u>684</u>	<u>149</u>	<u>37</u>
	<u>26,491</u>	<u>19,813</u>	<u>16,499</u>

Up to 30 November 2017, approximately 100%, 99.8% and 86.0% of the trade payables as at 31 March 2016, 31 March 2017 and 31 August 2017 had been subsequently settled, respectively.

Accruals and other payables

Accruals and other payables mainly represent the staff welfare payables and other tax payables.

The breakdown of accrued and other payables of our Group as of the dates indicated is as follow:

	As at 31 March		As at 31 August
	2016	2017	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other payables	675	2,752	2,322
Accrued expenses	<u>15,919</u>	<u>12,660</u>	<u>12,616</u>
	<u>16,594</u>	<u>15,412</u>	<u>14,938</u>

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Tax payable

Our income tax payable, which represents our current income tax liabilities, was approximately HK\$2.5 million, HK\$1.4 million and HK\$0.7 million as at 31 March 2016, 31 March 2017 and 31 August 2017, 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.

Cash flows

The following table sets forth selected cash flows data from our Group's consolidated statements of cash flows for the periods indicated:

	FY2016	FY2017	SP2016	SP2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(unaudited)</i>	
Operating cashflow before working capital changes	24,565	19,302	8,543	(519)
Net cash generated from/(used in) operating activities	24,464	12,853	(758)	(23,230)
Net cash generated from/(used in) investing activities	4,017	(4,271)	(2,470)	3,869
Net cash (used in)/generated from financing activities	<u>(34,565)</u>	<u>7,772</u>	<u>16,448</u>	<u>10,757</u>
Net (decrease)/increase in cash and cash equivalents	(6,084)	16,354	13,220	(8,604)
Cash and cash equivalents at beginning of year/period	21,097	12,176	12,176	26,714
Effect of exchange rate changes on cash and cash equivalents	<u>(2,837)</u>	<u>(1,816)</u>	<u>(1,102)</u>	<u>1,018</u>
Cash and cash equivalents at end of year/period	<u><u>12,176</u></u>	<u><u>26,714</u></u>	<u><u>24,294</u></u>	<u><u>19,128</u></u>

FINANCIAL INFORMATION

Net cash from operating activities

We derived our cash flow from operating activities primarily through receipt of payments for the 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 including 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 FY2016 was approximately HK\$24.5 million while our operating profit before working capital changes was approximately HK\$24.6 million. The difference of approximately HK\$0.1 million was mainly attributable to the (i) decrease in inventories of approximately HK\$3.4 million; (ii) decrease in trade receivables of approximately HK\$7.8 million; (iii) decrease in deposits, prepayment and other receivables of approximately HK\$4.4 million; and (iv) decrease in trade and bill payables of approximately HK\$14.8 million.

Our net cash generated from operating activities for FY2017 was approximately HK\$12.9 million while our operating profit before working capital changes was approximately HK\$19.3 million. The difference of approximately HK\$6.4 million was mainly attributable to the (i) decrease in inventories of approximately HK\$16.3 million; (ii) increase in trade receivables of approximately HK\$7.9 million; and (iii) decrease in trade and bill payables of approximately HK\$9.0 million.

Our net cash used in operating activities for SP2016 was approximately HK\$0.8 million while our operating cashflow before working capital changes was approximately HK\$8.5 million. The difference of approximately HK\$9.3 million was mainly attributable to the combined effect of (i) decrease in inventories of approximately HK\$16.7 million; (ii) increase in trade receivables of approximately HK\$18.1 million; and (iii) decrease in trade and bills payable of approximately HK\$5.1 million.

Our net cash used in operating activities for SP2017 was approximately HK\$23.2 million while our operating cashflow before working capital changes was an outflow of approximately HK\$0.5 million, following the loss before tax of approximately HK\$3.6 million resulting from the incurrence of listing expense of approximately HK\$7.9 million during SP2017. The difference of approximately HK\$22.7 million was mainly attributable to the increase in trade receivables of approximately HK\$16.1 million; and increase in deposits, prepayments and other receivables of approximately HK\$3.9 million.

Net cash 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.

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For FY2016, we had net cash inflow in investing activities of approximately HK\$4.0 million. The amount mainly represented (i) payment of purchases of property, plant and equipment of approximately HK\$4.9 million; (ii) decrease in amounts due from related companies of approximately HK\$3.8 million; and (iii) decrease in pledged bank deposit of approximately HK\$5.0 million.

For FY2017, we had net cash outflow in investing activities of approximately HK\$4.3 million. The amount mainly represented (i) increase in amounts due from related companies of approximately HK\$0.4 million; and (ii) payment of purchases of property, plant and equipment of approximately HK\$3.9 million.

For SP2016, we had net cash outflow in investing activities of approximately HK\$2.5 million. The amount mainly represented purchases of property, plant and equipment of approximately HK\$2.5 million.

For SP2017, we had net cash inflow in investing activities of approximately HK\$3.9 million. The amount mainly represented decrease in amount due from related parties of approximately HK\$6.8 million, which was partly offset by purchases of property, plant and equipment of approximately HK\$3.0 million.

Net cash (used in)/generated from financing activities

Our net cash used in financing activities for FY2016 was approximately HK\$34.6 million, which was mainly attributable to repayment of bank borrowings of approximately HK\$40.9 million, partially offset by an advance from Ms. Fung of approximately HK\$5.0 million.

Our net cash generated from financing activities for FY2017 was approximately HK\$7.8 million, which was mainly attributable to the advances from a director of approximately HK\$27.8 million and new bank borrowings of approximately HK\$22.8 million, which was partially offset by repayment of bank borrowings of approximately HK\$39.7 million.

Our net cash generated from financing activities for SP2016 was approximately HK\$16.4 million. The amount was mainly attributable to the advances from a director of approximately HK\$22.4 million and new bank borrowings of approximately HK\$22.5 million, which was partially offset by repayment of bank borrowings of approximately HK\$27.8 million.

Our net cash generated from financing activities for SP2017 was approximately HK\$10.8 million. The amount was mainly attributable to new bank borrowings of approximately HK\$52.1 million, which was partially offset by repayment of bank borrowings of approximately HK\$32.1 million.

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INDEBTEDNESS

The following table sets out our indebtedness as at the dates indicated:

	As at 31 March		As at 31 August	As at 30 November
	2016	2017	2017	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>
Current liabilities				
Amount due to a related company	1,790	1,548	—	—
Loan from a shareholder	5,000	10,000	10,000	10,000
Finance lease liabilities	625	213	87	88
Bank borrowings	<u>53,189</u>	<u>36,095</u>	<u>56,374</u>	<u>63,977</u>
Non-current liabilities				
Finance lease liabilities	<u>381</u>	<u>160</u>	<u>123</u>	<u>100</u>
Total indebtedness	<u><u>60,985</u></u>	<u><u>48,016</u></u>	<u><u>66,584</u></u>	<u><u>74,165</u></u>

Except as disclosed in this paragraph headed “Indebtedness”, our Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at 30 November 2017. Our Directors confirm that there has not been any material change in our indebtedness as at 30 November 2017. As at 30 November 2017, our Group had, in aggregate, bank facilities of HK\$147.1 million, of which approximately HK\$91.0 million had been utilised, and the remaining amount of approximately HK\$56.1 million remained available, including trade financing, revolving loan and bank overdraft.

Amount due to a related company

The amount was non-trade related, unsecured, interest-free and repayable on demand as at 31 March 2016 and 31 March 2017. The amount has been fully settled as at the Latest Practicable Date.

Loan from a shareholder

The amount was non-trade related, unsecured, interest bearing at 4% per annum and repayable on demand as at 31 March 2016, 31 March 2017, 31 August 2017 and 30 November 2017. The balance will be fully settled before Listing.

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Finance lease liabilities

The present value of finance lease liabilities is as follows:

	As at 31 March		As at	As at
	2016	2017	31 August	30 November
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i>	<i>2017</i>
			<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(Unaudited)</i>
Due within one year, included under current liabilities	625	213	87	88
Due in the second to fifth years, included under non-current liabilities	381	160	123	100
	1,006	373	210	188

Our Group entered into certain finance leases for its motor vehicle and machines with remaining lease terms of one to three years. Interest rates under the leases are fixed at a rate of 4.73% per annum. These leases do not have options to renew or contain any contingent rental provisions. Under the lease terms, our Group has the option to purchase the leased assets at a price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the leases.

Finance lease liabilities are secured by the underlying assets where the lessor has the rights to revert in event of default. The carrying amounts of the finance lease liabilities are denominated in HK\$ and approximate to their fair values.

Bank borrowings

	As at 31 March		As at	As at
	2016	2017	31 August	30 November
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i>	<i>2017</i>
			<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(Unaudited)</i>
Secured bank loans repayable within a period of:				
Less than one year	24,219	36,095	56,374	63,977
Term loan with repayable on demand clause repayable within a period of:				
More than two years but within five years	10,037	—	—	—
Over five years	18,933	—	—	—
	53,189	36,095	56,374	63,977

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Our Group's bank borrowings were secured by (a) properties and a land use right held by our Group and related parties; (b) unlimited guarantee from our Group and related parties; (c) limited cross corporate guarantee provided by our Group and related parties; (d) a charge over the deposits for HK\$15,000,000 as the bank is currently holding the "Security Over Deposits"; and (e) limited guarantee and indemnity provided by our Group and related parties. The guarantees provided by the related companies will be released upon Listing.

Our Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the term loans. Our Directors considered it is unlikely that the banks will exercise its discretion to demand repayment for so long as our Group continues to meet these requirements. At 31 March 2016, 31 March 2017 and 31 August 2017, our Directors confirm that none of the covenants relating to drawn down facilities had been breached.

Our Directors confirmed that our Group did not experience any withdrawal of facilities, default in payment of trade and other payables or bank borrowings, breach of financial covenants, and had not experienced difficulties in meeting obligations during the Track Record Period and up to the Latest Practicable Date. As at the Latest Practicable Date, none of our Group's bank borrowings and facilities are subject to fulfilment of covenants relating to financial ratio requirements or any other material covenants which would adversely affect our Group's ability to undertake additional debt or equity financings.

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.

SELECTED KEY FINANCIAL RATIOS

	FY2016/ As at 31 March 2016	FY2017/ As at 31 March 2017	SP2017/ As at 31 August 2017
Current ratio ⁽¹⁾	1.1 times	1.2 times	1.2 times
Quick ratio ⁽²⁾	0.6 times	0.7 times	0.7 times
Return on total assets ⁽³⁾	6.9%	8.5%	4.6%
Return on equity ⁽⁴⁾	30.7%	28.0%	18.2%
Gearing ratio ⁽⁵⁾	167.5%	108.4%	163.5%
Debt to equity ratio ⁽⁶⁾	134.1%	48.1%	116.5%
Interest coverage ⁽⁷⁾	8.7 times	7.5 times	5.0 times

Notes:

1. Current ratio is calculated based on the current assets divided by current liabilities as at the respective year/period end.
2. Quick ratio is calculated based on the current assets less inventories divided by current liabilities as at the respective year/period end.

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3. Return on total assets is calculated by the total comprehensive income (excluding the listing expenses) for the year/period divided by total assets multiplied by 100%. Return on total assets for SP2017 is annualised for illustrative purpose.
4. Return on equity is calculated by the total comprehensive income (excluding the listing expenses) for the year/period divided by total equity multiplied by 100%. Return on equity for SP2017 is annualised for illustrative purpose.
5. Gearing ratio is calculated based on the total debt (being our bank borrowing, amounts due to a related company, loan from a shareholder and finance lease liabilities) divided by the total equity as at the respective year/period end.
6. Debt to equity ratio is calculated based on the net debt (being our total debts net of cash and cash equivalents) divided by the total equity as at the respective year/period end.
7. Interest coverage ratio is calculated based on the profit before finance costs and income tax (excluding the listing expenses) divided by the finance costs for the respective year/period.

Current ratio and quick ratio

Our Group's current ratio as at 31 March 2016, 31 March 2017 and 31 August 2017 was approximately 1.1 times, 1.2 times and 1.2 times, respectively, while the quick ratio was approximately 0.6 times, 0.7 times and 0.7 times, respectively. Our Group's current ratio and quick ratio remained stable during the Track Record Period.

Return on total assets

Our Group's return on total assets (excluding the listing expenses) was approximately 6.9%, 8.5% and 4.6% for FY2016, FY2017 and SP2017, respectively, and remained stable during the Track Record Period.

Return on equity

Our Group's return on equity (excluding the listing expenses) decreased from approximately 30.7% for FY2016 to approximately 28.0% for FY2017 and 18.2% for SP2017, primarily due to the increase in shareholder's equity as at 31 March 2017 and as at 31 August 2017.

Gearing ratio

Our Group's gearing ratio decreased from approximately 167.5% in FY2016 to approximately 108.4% in FY2017, primarily due to the decrease in bank borrowings of approximately HK\$17.1 million as at 31 March 2017. The gearing ratio increased to approximately 163.5% for SP2017 due to increase in bank borrowings mainly attributable to purchase of raw materials for production in subsequent months based on customers' demand.

Debt to equity ratio

Our Group's debt to equity ratio decreased from approximately 134.1% for FY2016 to approximately 48.1% for FY2017, primarily due to the decrease in bank borrowings of approximately HK\$17.1 million as at 31 March 2017, and the increase in cash and cash equivalent of approximately HK\$14.5 million as at 31 March 2017.

FINANCIAL INFORMATION

The debt to equity ratio for SP2017 increased to approximately 116.5% due to increase in bank borrowings as explained above.

Interest coverage

Our Group's interest coverage decreased from approximately 8.7 times for FY2016 to approximately 7.5 times for FY2017, primarily due to the decrease in profit before interest and tax from approximately HK\$18.0 million for FY2016, to approximately HK\$14.5 million for FY2017.

Our Group's interest coverage was further reduced to 5.0 times for SP2017, due to the increase in finance cost mainly attributable to purchase of raw materials during SP2017 for production in subsequent months based on customers' demand.

CAPITAL EXPENDITURES AND COMMITMENTS

Operating Lease Commitments

Our Group as lessee

Our Group had made minimum lease payments of approximately HK\$28.3 million, HK\$28.5 million and HK\$11.4 million for FY2016, FY2017 and SP2017 respectively, in respect of factory, office and retail stores.

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 retail stores which fall due as follows:

	As at 31 March	2017	As at
	2016	2017	31 August
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	18,531	15,933	13,262
Within two to five years	26,732	12,230	9,314
Over five years	—	—	—
	45,263	28,163	22,576
	45,263	28,163	22,576

Operating lease payments represent rentals payable by our Group for certain of its premises. Leases are negotiated for terms ranging from two to five years and rental is fixed over the terms of the leases.

FINANCIAL INFORMATION

LISTING EXPENSES

Our Directors expect that our total listing expenses, which are non-recurring in nature, will amount to approximately HK\$26.0 million (assuming the Offer Price of HK\$0.7 per Offer Share; being the mid-point of the indicative Offer Price range stated in this prospectus). Out of the total HK\$26.0 million of listing expenses, approximately HK\$2.1 million and HK\$7.9 million had been recognised in profit or loss accounts in FY2017 and SP2017 respectively, our Directors expect to further recognise approximately HK\$6.9 million in our Group's profit and loss accounts for the remaining period in FY2018 and the remaining estimated listing expenses in the amount of approximately HK\$9.1 million will be deducted from equity upon the Listing.

Accordingly, the financial results of our Group for FY2018 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 FY2018. 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 recognised in the consolidated statement of profit or loss and other comprehensive income of our Group for FY2018 is subject to adjustment based on audit and the then changes in variables and assumptions.

NO MATERIAL ADVERSE CHANGE

Save for the total expenses for the Listing estimated to be approximately HK\$26.0 million, of which approximately HK\$14.8 million will be recorded in our Group's profit and loss for FY2018, 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 August 2017 (being the date to which the latest audited consolidated financial statements of our Group were prepared), and there is no event since 31 August 2017 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, available banking facilities 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 17 May 2017. As at 31 August 2017, our Company had no distributable reserves available for distribution to the Shareholders.

FINANCIAL INFORMATION

RELATED PARTY TRANSACTIONS

Our related party transactions during the Track Record Period as disclosed in note 31 to the Accountants' Report set out in Appendix I to this prospectus represented a loan advanced to our Group by Ms. Fung, and the corresponding interest expense as follows:

Nature of transactions	FY2016	FY2017	SP2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest of shareholder loan	184	298	167
Rent paid to a related company	1,920	1,920	800

Our Directors confirm that such transaction 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 the Shareholders as a whole. The said shareholder's loan will be repaid and such related party transactions have been discontinued prior to the Listing.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The major financial risks arising from our Group's normal course of business include interest rate risk, credit risk, liquidity risk and foreign currency risk. For details, please refer to note 30 — "Accountants' Report — Financial risk management" to Appendix I of this prospectus.

DIVIDEND

No dividends were declared for FY2016, FY2017 and SP2017. We declared a special dividend of HK\$16.0 million on 27 December 2017, in which approximately HK\$5.7 million will be applied to offset against the net amount due from Ms. Fung, and approximately HK\$10.3 million will be settled in cash by internal resources before the Listing. After which, all the amount due from Ms. Fung will be settled prior to 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, 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

Regarding our business development effort, we entered into a business relationship with a new OEM customer (“**Customer F**”) in January 2017, who became one of our five largest customers for SP2017. Customer F is a manufacturer and marketer of licensed children’s sports apparel for all of the major sports leagues and leading colleges in US. Up to the Latest Practicable Date, we have already obtained purchase orders from Customer F with a total amount of approximately HK\$12.4 million, in which approximately HK\$7.0 million was recognised as revenue for SP2017. Based on the forecast provided by Customer F, and our adjustment based on the pace of Customer F’s orders we received recently, we estimated that the revenue to be generated from Customer F will be approximately HK\$20.1 million for FY2018.

We have also discussed order projections with our existing OEM customers. Our Directors estimated that, based on the projection provided by our customers, the revenue from Impact Imports and Acorn will increase by approximately 26.5% and 54.1% for FY2018, respectively as compared with FY2017; while the revenue from Gerber will decrease by approximately 10.9%. On the other hand, based on the indication provided by Next and Mamas & Papas through their discussion with our Directors, our sales to them will decrease by approximately 69.7% and increase by approximately 5.2% for FY2018, respectively. Overall, having considered the achieved sales for SP2017 as compared with the projections or indication provided by our major customers for the same period, our Directors expect that the revenue and financial performance from our OEM business for FY2018 will remain stable.

Regarding our OBM business, we have relocated a self-operated retail store in Tseung Kwan O to a department store counter in the same district as the tenancy agreement of the self-operated retail store expired in September 2017. Also, in view of the upcoming Chinese New Year and for the purpose of promoting our brand awareness, as at the Latest Practicable Date, we had a short term pop-up store at Festival Walk with the licence period from December 2017 to February 2018 and another short term pop-up store at Hong Kong International Airport from December 2017 to April 2018. We also entered into agreements to set up short term pop-up stores at Lok Fu and Telford Plaza each from January 2018 to February 2018. We also launched online sales for Chinese New Year baby clothing collection in December 2017.

In light of the decrease in sales to Next and Gerber, increase in sales to other OEM customers at a higher gross profit margin, sales to Customer F which was our new customer in 2017, and the increased marketing initiatives for our OBM business, our Directors believe that our Group’s gross profit margin will be improved in FY2018. Overall, our Directors believe that our Group’s revenue and financial performance of FY2018 will remain stable as compared to those of FY2017.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED 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 August 2017. Because of its hypothetical nature, the unaudited pro forma financial information may not give an accurate picture of the consolidated financial position of our Group had the Share Offer been completed on 31 August 2017 or at any future dates.

The unaudited pro forma adjusted consolidated net tangible assets of our Group as at 31 August 2017 is based on the audited consolidated net tangible assets of our Group as at 31 August 2017 as shown in the Accountants’ Report set out in Appendix I to this prospectus and the adjustments described below.

	Audited consolidated net tangible assets of our Group attributable to owners of our Company as at 31 August 2017	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company per Share
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i>	<i>HK\$</i> <i>(Note 3)</i>
Based on the Offer Price of HK\$0.62 per Share	<u>40,736</u>	<u>46,452</u>	<u>87,188</u>	<u>0.22</u>
Based on the Offer Price of HK\$0.70 per Share	<u>40,736</u>	<u>54,052</u>	<u>94,788</u>	<u>0.24</u>
Based on the Offer Price of HK\$0.78 per Share	<u>40,736</u>	<u>61,652</u>	<u>102,388</u>	<u>0.26</u>

Notes:

1. The audited consolidated net tangible assets attributable to owners of our Company as at 31 August 2017 is as extracted from the Accountants’ Report set forth in Appendix I to this prospectus.
2. The estimated net proceeds from the Share Offer are based on 100,000,000 Shares at the Offer Price of HK\$0.62, HK\$0.70 and HK\$0.78 per Share, after deduction of the underwriting fees and remaining related expenses payable by our Company in connection with the Share Offer.

FINANCIAL INFORMATION

3. The unaudited pro forma adjusted consolidated net tangible assets to owners of our Company per Share is calculated based on 400,000,000 Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue. It does not take into account of any Share which may fall to be allotted and issued pursuant to the exercise of any option which may be granted under the Share Option Scheme and the Offer Size Adjustment Option.
4. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading result or other transactions of our Group entered into subsequent to 31 August 2017.
5. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to the owners of our Company as at 31 August 2017 does not take into account the special dividend of HK\$16,000,000 to be declared before the Share Offer. Had the special dividend of HK\$16,000,000 to be declared before the Share Offer been taken into account of the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company as at 31 August 2017 and the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share as at 31 August 2017 would have been further adjusted to HK\$71,188,000, HK\$78,788,000 and HK\$86,388,000, respectively and the unaudited pro forma adjusted consolidated net tangible asset per Share would have been HK\$0.18, HK\$0.20 and HK\$0.22 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.

IMPLEMENTATION PLANS

In order to implement the business objectives and strategies as described above, set forth below are the implementation plans of our Group for each of the six-month periods from the Latest Practicable Date until 31 March 2020. It should be noted that the implementation plans are formulated on the bases and assumptions referred to in the paragraph headed “Bases and assumptions” below. These bases and assumptions are subject to many uncertainties and unpredictable factors, in particular the risk factors set forth in the section headed “Risk factors” in this prospectus. Our Group’s actual course of business may vary from the business objective 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 objective of our Group will be accomplished at all.

From the Latest Practicable Date to 31 March 2018

Business strategies	Implementation plan	Use of proceeds <i>(Approximately HK\$ million)</i>
Upgrading our production facilities and enhancing the production capability through extensive application of RFID technology	<i>Existing production facilities</i> <ul style="list-style-type: none"> • To upgrade our existing production facilities by machine addition and replacement 	2.0
Repayment of bank loan	<ul style="list-style-type: none"> • To repay certain bank loan in a one-off manner (<i>Note</i>) 	4.5
	Sub-total for the period	6.5

Note: It refers to a revolving bank loan which bear interest at a rate of HIBOR +2.7% per annum.

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 30 September 2018

Business strategies	Implementation plan	Use of proceeds <i>(Approximately HK\$ million)</i>
Upgrading our production facilities and enhancing the production capability through extensive application of RFID technology	<p><i>Printing machine(s)</i></p> <ul style="list-style-type: none"> • To acquire one set of colour digital printing machine <p><i>RFID technology</i></p> <ul style="list-style-type: none"> • To acquire RFID technology machine and management system • To provide training to our staff <p><i>Existing production facilities</i></p> <ul style="list-style-type: none"> • To upgrade our existing production facilities by machine addition and replacement 	<p>2.0</p> <p>2.5</p> <p>0.2</p> <p>1.0</p>
Enhancing our sales and marketing effort	<p><i>Overseas</i></p> <ul style="list-style-type: none"> • To travel and conduct site visits (led by our executive Directors) to at least 10 potential US and European baby fashion and product retailers and wholesalers • To travel and attend baby clothing exhibitions for baby and other garment products, textile, and showcases for other industry players in US and Europe • To engage marketing agents to promote our products in overseas exhibitions • To travel and set up booths for exhibitions in US and Europe 	<p>0.4</p> <p>0.3</p> <p>0.2</p> <p>0.3</p>

FUTURE PLANS AND USE OF PROCEEDS

Business strategies	Implementation plan	Use of proceeds <i>(Approximately HK\$ million)</i>
	<i>Hong Kong</i>	
	• To upgrade our website and mobile application	0.2
	• To provide caring talks to parents and prospective parents	0.7
	• To conduct marketing campaign and advertising	1.0
	• To sponsor our sales staff to attend sales training	1.0
	• To develop e-learning programme for newly enrolled sales staff	1.0
Strengthening our research and development capabilities for the PRC market	• To recruit our research and development team in the PRC	1.2
	• To support research and development activities such as rental of office, procurement of raw materials and marketing expenses	0.4
	Sub-total for the period	12.4

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 31 March 2019

Business strategies	Implementation plan	Use of proceeds <i>(Approximately HK\$ million)</i>
Upgrading our production facilities and enhancing the production capability through extensive application of RFID technology	<p><i>Printing machine(s)</i></p> <ul style="list-style-type: none"> • To maintain our colour digital printing machine <p><i>Existing production facilities</i></p> <ul style="list-style-type: none"> • To upgrade our existing production facilities by machine addition and replacement 	<p>0.2</p> <p>2.0</p>
Enhancing our sales and marketing effort	<p><i>Overseas</i></p> <ul style="list-style-type: none"> • To travel and conduct site visit (led by our executive Directors) to at least five potential US and European baby fashion and product retailers and wholesalers • To travel and attend baby clothing exhibitions for baby and other garment products, textile, and showcases for other industry players in US and Europe • To engage marketing agents to promote our products in overseas exhibitions • To travel and set up booths for exhibitions in US and Europe <p><i>Hong Kong</i></p> <ul style="list-style-type: none"> • To maintain our website and mobile application • To provide caring talk to parents and prospective parents • To conduct marketing campaign and advertising 	<p>0.2</p> <p>0.2</p> <p>0.2</p> <p>0.3</p> <p>0.2</p> <p>0.8</p> <p>1.0</p>
Strengthening our research and development capabilities for the PRC market	<ul style="list-style-type: none"> • To maintain the research and development team in the PRC • To support research and development activities such as rental of office, procurement of raw materials and marketing expenses 	<p>1.3</p> <p>0.4</p>
	Sub-total for the period	6.8

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 30 September 2019

Business strategies	Implementation plan	Use of proceeds <i>(Approximately HK\$ million)</i>
Upgrading our production facilities and enhancing the production capability through extensive application of RFID technology	<i>Printing machine(s)</i>	
	<ul style="list-style-type: none"> • To acquire one more set of colour digital printing machine 	2.0
	<i>RFID</i>	
	<ul style="list-style-type: none"> • To provide training to our staff 	0.3
Enhancing our sales and marketing effort	<i>Existing production facilities</i>	
	<ul style="list-style-type: none"> • To upgrade our existing production facilities by machine addition and replacement 	1.0
	<i>Overseas</i>	
	<ul style="list-style-type: none"> • To travel and conduct site visit (led by our executive Directors) to at least five potential US and European baby fashion and product retailers and wholesalers • To travel and attend baby clothing exhibitions for baby and other garment products, textile, and showcases for other industry players in US and Europe • To engage marketing agents to promote our products in overseas exhibitions 	0.2 0.3 0.2
Strengthening our research and development capabilities for the PRC market	<i>Hong Kong</i>	
	<ul style="list-style-type: none"> • To maintain our website and mobile application • To provide caring talk to parents and prospective parents • To conduct marketing campaign and advertising 	0.3 0.5 0.5
	<ul style="list-style-type: none"> • To recruit and maintain the research and development team in the PRC • To support research and development activities such as rental of office, procurement of raw materials and marketing expenses 	1.3 0.4
	Sub-total for the period	<hr/> <hr/>

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 31 March 2020

Business strategies	Implementation plan	Use of proceeds <i>(Approximately HK\$ million)</i>
Upgrading our production facilities and enhancing the production capabilities by applying RFID technology	<i>Printing machine(s)</i>	
	<ul style="list-style-type: none"> • To maintain our colour digital printing machines 	0.5
Enhancing our sales and marketing effort	<i>Existing production facilities</i>	
	<ul style="list-style-type: none"> • To upgrade our existing production facilities by machine addition and replacement 	2.0
Enhancing our sales and marketing effort	<i>Overseas</i>	
	<ul style="list-style-type: none"> • To travel and conduct site visit (led by our executive Directors) to at least five potential US and European baby fashion and product retailers and wholesalers 	0.2
	<ul style="list-style-type: none"> • To travel and attend baby clothing exhibitions for baby and other garment products, textile, and showcases for other industry players in US and Europe 	0.3
	<ul style="list-style-type: none"> • To engage marketing agents to promote our products in overseas exhibitions 	0.2
	<i>Hong Kong</i>	
	<ul style="list-style-type: none"> • To maintain our website and mobile application 	0.3
	<ul style="list-style-type: none"> • To provide caring talk to parents and prospective parents 	0.5
	<ul style="list-style-type: none"> • To conduct marketing campaign and advertising 	1.0
	<ul style="list-style-type: none"> • To sponsor our sales staff to attend sales training 	1.0
	Strengthening our research and development capabilities for the PRC market	<ul style="list-style-type: none"> • To maintain the research and development team in the PRC • To support research and development activities such as rental of office, procurement of raw materials and marketing expenses
Sub-total for the period		7.8

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 FOR THE LISTING AND THE SHARE OFFER

Our Directors believe that the commercial rationale of the Listing is as follow:

- **Upgrade our Group’s production facilities to produce products with higher profit margin and better efficiency**

According to the F&S Report, the production business of baby clothing is considered capital intensive in nature as the initial capital investment is high for setting up production facilities, the acquisition of equipment and machineries. The acquisition of new machineries with advanced technology can enhance our competitiveness and we will be able to respond to more invitations from our existing and potential customers. We consider that the colour digital printing technology used on baby clothing products may price our baby clothing products more favourably, possibly resulting in higher profit margin.

As at 31 August 2017, the current average age of our Group’s production machines was approximately 13.3 years. For FY2016, FY2017 and SP2017, our utilisation rates were 95.7%, 73.4% and 70.2%, respectively. Most of our production facilities have longer useful life than the estimated useful life of accounting policy of our Group. With the acquisition of additional machineries and the replacement of our old machineries, we can also improve our production capacity to produce our production with better efficiency.

FUTURE PLANS AND USE OF PROCEEDS

- **Facilitate the implementation of our business strategies by accessing the capital market for raising funds**

During the Track Record Period, our Group mainly utilised its banking facilities and internal resources for our business operations. As at 31 August 2017, our cash and cash equivalents was approximately HK\$19.1 million and we had total bank borrowings of approximately HK\$56.4 million, comprising revolving loan of approximately HK\$45.9 million, bills of exchange of approximately HK\$4.5 million, tax loan of approximately HK\$3.0 million and bank overdraft of approximately HK\$2.9 million. Our Directors consider that debt financing is not desirable as the fund is repayable and not permanent in nature and the interest expenses would impose additional cash flow burden to our Group and further increase the gearing level of our Group. Our Directors also consider that while our Group maintains a healthy cash level to support its existing operations, the net proceeds from the Share Offer are necessary for the implementation of our business plans.

- **Strengthen our competitiveness in the market through the Listing**

It is expected that the brand recognition of our Group can be broadened through the Listing and our corporate profile will be enhanced, which in turn will help attract more customers. As we plan to further explore the OEM market in US and Europe, we believe that our potential customers tend to give preference to a manufacturer which has a public listing status with a sound reputation. Furthermore, the listing status will also enhance our Group's credibility, which would increase our Group's bargaining power in negotiating terms and earn us more favourable terms from our suppliers.

- **Other commercial benefits arising from a public listing status**

We believe that through the Listing, our internal control and corporate governance practices would be further enhanced. The Share Offer will strengthen the liquidity of the Shares by achieving the listing status of the Shares which will be freely traded on the Stock Exchange when compared to the limited liquidity of the Shares that are privately held before the Listing.

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.

The net proceeds from the Share Offer, after deducting the related expenses, are estimated to be approximately HK\$44.0 million based on the Offer Price of HK\$0.7 per Offer Share (being the mid-point of the indicative Offer Price range between HK\$0.62 and HK\$0.78 per Offer Share) and assuming that the Offer Size Adjustment Option is not exercised. Our Directors intend that the net proceeds will be applied as follows:

- i. Approximately HK\$15.7 million or 35.7% will be used for upgrading our production facilities. We plan to acquire two sets of colour digital printing machine and apply an extensive RFID technology in our production facilities. We also intend to upgrade our existing production facilities by replacement;

FUTURE PLANS AND USE OF PROCEEDS

- ii. Approximately HK\$13.5 million or 30.7% will be used for enhancing our sales and marketing effort;
- iii. Approximately HK\$6.8 million or 15.5% will be used for strengthening our research and development capabilities for the PRC market;
- iv. Approximately HK\$4.5 million or 10.2% will be used for settlement of a revolving bank loan carrying interest at a rate of HIBOR +2.7% per annum; and
- v. Approximately HK\$3.5 million or 7.9% will be used for working capital of our Group.

UNDERWRITING

THE PUBLIC OFFER UNDERWRITERS

Alliance Capital Partners Limited
SPDB International Capital Limited
Haitong International Securities Company Limited
China Goldjoy Securities Limited
China Industrial Securities International Capital Limited
Shenwan Hongyuan Capital (H.K.) Limited
Yicko Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company is offering 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.

The Public Offer Underwriting Agreement is conditional upon and subject to, among others, the Placing Underwriting Agreement becoming unconditional and not having been terminated in accordance with its terms.

Subject to, among other conditions, the Listing Department granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have agreed to subscribe or procure subscribers to subscribe for the Public Offer Shares which are not taken up under the Public Offer.

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 (which is expected to be on Friday, 26 January 2018):

- (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

Underwriting Agreement other than the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters which, in any such cases, is considered, in the absolute 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 absolute 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 absolute opinion which is discovered to be or becomes untrue, incorrect or misleading in any respect considered in the absolute 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 our Controlling Shareholders pursuant to the indemnities contained in the Underwriting Agreements; 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 absolute 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 absolute 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
 - (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 our Group (the “**Relevant Jurisdictions**”); or

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- (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
- (ix) any litigation or claim of any third party being threatened or instigated against any member of our Group, the executive Directors and/or the 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

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- (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

- (xx) any event which gives rise or would give rise to any liability on the part of our Company and/or 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,

UNDERWRITING

which, individually or in the aggregate, in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters):

- (a) is or will or is 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, our Company has undertaken to the Stock Exchange that, except pursuant to the Capitalisation Issue, the Share Offer, the Offer Size Adjustment Option and the Share Option Scheme as described and contained in this prospectus, we will not issue any further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) or enter into any agreement to such an issue 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 any of the circumstances 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 our Company and to the Stock Exchange that, save as the circumstances permitted pursuant to Rule 13.18 of the GEM Listing Rules, it/he/she shall not and shall procure that the relevant registered shareholder(s), its/his/her associates, companies controlled by it/him/her or its/his/her nominees or trustees holding the Shares in trust for it/him/her (as the case may be) shall not:

- (a) at any time during the period commencing on the date by reference to which disclosure of its/his/her 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/she is shown by this prospectus to be the beneficial owner; or
- (b) at any time during the six months commencing on the date on which the period referred to in (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 Shares referred to in subparagraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he/she would cease to be a controlling shareholder (as defined under the GEM Listing Rules) of our Company.

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Pursuant to Rule 13.19 of the GEM Listing Rules, each of our Controlling Shareholders has also undertaken to and covenanted with our Company and the Stock Exchange that:

- (a) in the event that it/he/she pledges or charges any of its/his/her direct or indirect interest in the Shares or other securities of our Company 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, at any time during the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders in our Company is made in this prospectus and ending on the 12 months after the Listing Date, he/she/it must inform our Company immediately thereafter, disclosing the details specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and
- (b) having pledged or charged any interest in the Shares or other securities of our Company under sub-paragraph (a) above, it/he/she must inform our Company immediately in the event that it/he/she becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Shares or other securities of our Company affected.

Our Company will also inform the Stock Exchange as soon as our Company has been informed of the above matters (if any) by any of our Controlling Shareholders and must forthwith publish an announcement giving details of the same in accordance with the requirements of Rule 17.43 of the GEM Listing Rules.

Undertakings pursuant to the Public Offer Underwriting Agreement

(A) 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 that may 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 period commencing on the date of the Public Offer Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”);

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- (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 period of six months immediately following the expiry of the First Six-Month Period (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, subdivision 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.

(B) Undertakings by our Controlling Shareholder

Each of our Controlling Shareholders has undertaken to each of the Stock Exchange and our Company that, except as permitted under the GEM Listing Rules and pursuant to the Public Offer, the Capitalisation Issue or the exercise of any options that may be granted under the Share Option Scheme, he/she/it shall not and shall procure that the relevant registered shareholder(s) and his/her/its associates or companies controlled by him/her/it and any nominee or trustee holding in trust for him/her/it shall not during 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 or she is shown in the 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.

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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/she/it shall not, and shall procure that the relevant registered holder(s) and his/her/its associates or companies controlled by him/her/it and any nominee or trustee holding in trust for him/her/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 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/her/it or any of his/her/its associates or companies controlled by him/her/it or any nominee or trustee holding in trust for him/her/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 12 months from the Listing Date, he/she/it will:

- (a) when he/she/it pledges or charges any securities or interests in the securities of our Company beneficially owned by him/her/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/she/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 the 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.

The Placing

Placing Underwriting Agreement

In connection with the Placing, our Controlling Shareholders, executive Directors and our Company expect to enter into the Placing Underwriting Agreement with the Joint Bookrunners and the Placing Underwriters, on the terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below.

UNDERWRITING

Under the Placing Underwriting Agreement, subject to the conditions set forth therein, the Placing Underwriters are expected to severally, but not jointly, agree to procure subscribers to subscribe for, or failing which they shall subscribe for, 90,000,000 Placing Shares initially being offered pursuant to the Placing. It is expected that the Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Potential investors shall be reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed. The Placing Underwriting Agreement is conditional on and subject to the Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated.

It is expected that pursuant to the Placing Underwriting Agreement, (i) our Company and (ii) each of the Controlling Shareholders will make similar undertakings as those given pursuant to the Public Offer Underwriting Agreement as described in the paragraphs headed “Underwriting arrangements and expenses — Public Offer — Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

It is expected that each of the 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 the Shares held by him/her/it in our Company for a period similar to that given by them pursuant to the Public Offer Underwriting Agreement as described in the paragraphs headed “Underwriting arrangements and expenses — The Public Offer — Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

Underwriting commission and expenses

The Underwriters will receive a commission of 5% on the aggregate Offer Price of all the Offer Shares, out of which will, as the case may be, be applied to any sub-underwriting commissions and selling concession. On the basis of the midpoint of the Offer Price range of HK\$0.7 per Offer Share (being the mid-point of the indicative Offer Price range), the underwriting commission will be approximately HK\$3.5 million. The underwriting commission, documentation fee, Stock Exchange listing fees, brokerage, Stock Exchange trading fee, SFC transaction levy, legal and other professional fees together with applicable printing and other expense relating to the Share Offer are estimated to be approximately HK\$26.0 million, which will be borne by our Company.

Sole Sponsor and Underwriters’ interest in our Company

Following the completion of the Share Offer, the Underwriters and their respective affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Underwriting Agreements.

Save for their interests and obligations under the Underwriting Agreements, the Sponsor’s fee payable to the Sole Sponsor in connection with the Listing, the fee payable to the Sole Sponsor for acting as our compliance adviser, and the fee payable to the Sole Sponsor for acting as our financial adviser, none of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or their respective directors or employees, is interested, beneficially or otherwise, in any shares in any member of our Group or has any right (whether enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of our Group.

UNDERWRITING

No director or employee of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers or the Underwriters has a directorship in our Company or any member of our Group.

Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 6A.07 of the GEM Listing Rules.

COMPLIANCE ADVISER'S AGREEMENT

Under a compliance adviser's agreement made between Alliance Capital Partners Limited and our Company (the "**Compliance Adviser's Agreement**"), our Company appoints Alliance Capital Partners Limited and Alliance Capital Partners Limited agrees to act as the compliance adviser to our Company for the purpose of the GEM Listing Rules for a fee 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, or until the agreement is terminated, whichever is earlier.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE SHARE OFFER

This prospectus is published in connection with the Public Offer as part of the Share Offer. The Share Offer consists of:

- the Public Offer of 10,000,000 Shares (subject to reallocation as mentioned below) as described under the paragraph headed “The Public Offer” in this section; and
- the Placing of 90,000,000 Shares (subject to reallocation as mentioned below and Offer Size Adjustment Option) as described under the paragraph headed “The Placing” in this section.

Of the 90,000,000 Offer Shares initially being offered under the Placing, 5,000,000 Offer Shares (representing 5% of the total number of Offer Shares initially being offered under the Share Offer) are available for subscription by Eligible Employees on a preferential basis under the Employee Preferential Offer, subject to the terms and conditions set out in this prospectus and the **PINK** Application Form.

Investors may apply for the Offer Shares under the Public Offer or indicate an interest, if qualified to do so, for the Offer Shares under the Placing, but may not do both. The Public Offer is open to members of the public in Hong Kong as well as to institutional, professional and other investors in Hong Kong.

The Placing will involve selective marketing of the Offer Shares to institutional, professional and other investors. The Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the Placing. Prospective investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire.

Eligible Employees may make an application for the Employee Reserved Shares on a **PINK** Application Form and, in addition, will be entitled to apply for Offer Shares under the Placing or indicate an interest, if qualified to do so, for the Offer Shares under the Public Offer, but may not do both.

The number of Offer Shares to be offered under the Public Offer and the Placing respectively may be subject to reallocation as described in the paragraph headed “Pricing and allocation” in this section.

PRICING AND ALLOCATION

Offer Price

The Offer Price will be not more than HK\$0.78 per Offer Share and not less than HK\$0.62 per Offer Share, unless otherwise announced. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Price payable on application

Applicants under the Public Offer must pay, on application, the maximum indicative Offer Price of HK\$0.78 per Public Offer Share plus 1% brokerage, a 0.0027% SFC transaction levy and a 0.005% Stock Exchange trading fee, amounting to a total of HK\$3,151.44 for one board lot of 4,000 Shares. Each Application Form includes a table showing the exact amounts payable on certain numbers of Offer Shares. If the Offer Price as finally determined in the manner described below, is less than HK\$0.78 per Public Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest.

Determining the Offer Price

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or about Thursday, 18 January 2018, or such date as may be agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters).

If, for any reason, our Company and the Joint Bookrunners (on behalf of the Underwriters) are unable to reach agreement on the Offer Price at or before the Price Determination Date, the Share Offer will not proceed and will lapse.

Reduction in indicative Offer Price range

The Placing Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the Placing. Prospective investors will be required to specify the number of the Placing Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as "bookbuilding", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Public Offer.

The Offer Price will not be more than HK\$0.78 per Share and is expected to be not less than HK\$0.62 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, based on the level of interest expressed by prospective professional, institutional and other investors during the bookbuilding process and with the prior consent of our Company, reduce the number of Offer Shares offered in the Share Offer and/or the indicative Offer Price range below that disclosed in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event no later than the morning of the day which is the last day for lodging applications under the Public Offer, cause there to be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.mansionintl.com a notice of reduction and to be issued a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range, extend the period under which the Public Offer was opened for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and give potential investors who had applied for the Public Offer Shares the right to withdraw their applications under the Public Offer. Upon issue of such a notice and a supplemental prospectus, the number of Offer Shares offered in the Share Offer and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon the Joint Bookrunners (for themselves and on behalf of the other Underwriters) and our Company, will be fixed within such revised offer price range. Such notice and supplemental prospectus shall also include confirmation or revision, as appropriate, of the working capital statement, Share Offer statistics and any financial or other information in this prospectus which may change as a result of any such reduction.

Before submitting applications for Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer. In the event there is a reduction in the number of the Offer Shares and/or indicative Offer Price range, if the applicants have already submitted an application for the Public Offer Shares before the last day for lodging applications under the Public Offer, they will be allowed to subsequently withdraw their applications. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Joint Bookrunners (for themselves and on behalf of the other Underwriters), will under no circumstances be set outside the indicative Offer Price range as stated in this prospectus.

The final Offer Price, the indications of interest in the Share Offer, the results of applications and the basis of allotment of the Public Offer Shares available under the Public Offer, are expected to be announced on Thursday, 25 January 2018 on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at www.mansionintl.com.

Allocation

The 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.

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 Shares after Listing. Such allocation may be made to professional, institutional and other investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Allocation of the 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. The allocation of Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Announcement of final Offer Price and basis of allocations

The applicable final Offer Price, the level of indications of interest in the Placing and the basis of allocations of the Public Offer Shares are expected to be announced on Thursday, 25 January 2018 on the Stock Exchange's website and on our Company's website.

Results of allocations in the Public Offer, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Public Offer Shares successfully applied for under **PINK**, **WHITE** and **YELLOW** application forms or by giving electronic application instructions to HKSCC via CCASS or through **HK eIPO White Form** Service Provider will be made available through a variety of channels as described in the section headed "How to apply for the Public Offer Shares and Employee Reserved Shares — 11. Publication of results" in this prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares pursuant to the Public Offer will be conditional upon, among other things:

- the Listing Department granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer (including the Shares which may be made available pursuant to the Capitalisation Issue, any Shares to be issued upon the exercise of the Offer Size Adjustment Option and to be issued upon the exercise of the options that may be granted under the Share Option Scheme);
- the Offer Price having been duly agreed on or around the Price Determination Date;
- the execution and delivery of the Placing Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under each of the Placing Underwriting Agreement and the Public Offer Underwriting Agreement having become 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 such Underwriting Agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event not beyond the 30th day after the date of this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will cause to be published by us on the Stock Exchange's website and on our Company's website on the next day following such lapse.

Share certificates for the Offer Shares are expected to be issued on Thursday, 25 January 2018 but will only become valid certificates of title at 8:00 a.m. on Friday, 26 January 2018, provided that (i) the Share Offer has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Underwriting arrangements and expenses — The Public Offer — Grounds for termination" in this prospectus has not been exercised.

THE PUBLIC OFFER

Number of Shares initially offered

Our Company is initially offering 10,000,000 Public Offer Shares at the Offer Price, representing 10% of the 100,000,000 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, professional and other investors.

Completion of the Public Offer is subject to the conditions as set out in the paragraph headed "Conditions of the Share Offer" in this section.

Allocation

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will cause to be published by us on the Stock Exchange's website and on our Company's website on the next day following such lapse.

Share certificates for the Offer Shares are expected to be issued on Thursday, 25 January 2018 but will only become valid certificates of title at 8:00 a.m. on Friday, 26 January 2018 provided that (i) the Share Offer has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Underwriting arrangements and expenses — The Public Offer — Grounds for termination" in this prospectus has not been exercised.

The Public Offer is open for subscription to all members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. Allocation of the 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

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

applied for by applicants. The allocation of Public Offer Shares could, where appropriate, consist of balloting, which mean that some applicants may receive a higher allocation 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.

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Placing Shares in the Placing, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be. Multiple or suspected multiple applications and any application for more than 100% of the Public Offer Shares initially comprised in the Public Offer are liable to be rejected.

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 30,000,000 Shares, 40,000,000 Shares and 50,000,000 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 deems appropriate.

If the Public Offer Shares are not fully subscribed, the Joint Bookrunners has the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Bookrunners deems 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.

THE PLACING

Number of Offer Shares offered

Subject to the reallocation as described above, the number of Offer Shares to be initially offered under the Placing will be 90,000,000 Shares (including the Employee Preferential Offer) and representing 90% of the total number of the Offer Shares initially available under the Share Offer. Subject to the reallocation of the Offer Shares between the Placing and the Public Offer, the number of Shares initially offered under the Placing will represent approximately 22.5% of our Company's enlarged issue share capital immediately after the completion of the Share Offer, but without taking into account any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option. The Placing is subject to the Public Offer being unconditional.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Allocation

Pursuant to the Placing, the Placing Underwriters will conditionally place the Placing Shares with institutional, professional and other investors expected to have a sizeable demand for the Shares in Hong Kong. Allocation of the Offer Shares pursuant to the Placing will be effected in accordance with the “bookbuilding” process described in paragraph headed “Pricing and allocation” in this section and 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 Shares, and/or hold or sell its Shares after Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

The Joint Bookrunners may require any investor who has been offered Offer 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 them to identify the relevant applications under the Public Offer and to ensure that they are excluded from any application of Offer Shares under the Public Offer.

THE EMPLOYEE PREFERENTIAL OFFER

Of the 90,000,000 Offer Shares initially being offered under the Placing, 5,000,000 Offer Shares (representing 5% of the total number of Offer Shares initially being offered under the Share Offer) are available for subscription by the Eligible Employees on a preferential basis, subject to the terms and conditions set out in this prospectus and the **PINK** Application Form.

The Employee Reserved Shares are being offered out of the Placing Shares but will not be subject to the clawback mechanism as set out in “The Public Offer — Reallocation” in this section.

As at the Latest Practicable Date, there were 144 Eligible Employees being eligible to apply for Employee Reserved Shares under the Employee Preferential Offer.

Allocation of the Offer Shares under the Employee Preferential Offer will be based on the written guidelines distributed to the Eligible Employees which are consistent with the allocation guidelines contained in Practice Note 20 of the GEM Listing Rules. The allocation of the Offer Shares under the Employee Preferential Offer will, in any event, be made on an equitable basis and will not be based on the identity, the seniority, the length of service or the work performance of the Eligible Employees. No favour will be given to the Eligible Employees who apply for a large number of Employee Reserved Shares. Eligible Employees applying for Employee Reserved Shares will be subject to an allocation basis that is based on the level of valid applications received. The allocation basis will be determined by our Company’s Hong Kong Branch Share Registrar based on the level of valid applications received under the Employee Preferential Offer and the number of Employee Reserved Shares validly applied for within each application tier. The allocation basis will be consistent with the allocation basis commonly used in the case of over-subscriptions in the Public Offer, where a higher allocation percentage will be applied in respect of smaller applications of Employee Reserved Shares. Any application made on a **PINK** Application Form for more than 5,000,000 Employee Reserved Shares will be rejected.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Any Offer Shares not subscribed for by the Eligible Employees under the Employee Preferential Offer will be available for subscription under the Placing after the reallocation as described above in the paragraph headed “The Placing” in this section.

If you are an Eligible Employee, in addition to being able to apply for Employee Reserved Shares under the Employee Preferential Offer by a **PINK** Application Form, you may also:

- apply for Public Offer Shares as a member of the public in the Public Offer on a **WHITE** or **YELLOW** Application Form or by submitting application online through the designated website of the **HK eIPO White Form** Service Provider or giving electronic application instruction to HKSCC via CCASS; or
- apply for or indicate an interest for Placing Shares under the Placing,

but you may not do both. Eligible Employees will receive no preference as to entitlement or allocation in respect of such further application for Public Offer Shares or Placing Shares.

OFFER SIZE ADJUSTMENT OPTION

In connection with the Share Offer, our Company granted to the Joint Bookrunners (for themselves and on behalf of the Underwriters) the Offer Size Adjustment Option to cover over-allocations under the Placing (if any). Pursuant to the Offer Size Adjustment Option, our Company may be required to allot and issue, at the final Offer Price, up to an aggregate of 15,000,000 additional new Shares, representing 15% of the Offer Shares initially available under the Share Offer.

The Offer Size Adjustment Option can only be exercised by the Joint Bookrunners (for themselves and on behalf of the Underwriters) prior to the Listing Date; otherwise it will lapse. The Shares to be issued pursuant to the exercise of the Offer Size Adjustment Option will not be used for price stabilisation purpose and are not subject to the Securities and Futures (Price Stabilising) Rules of the SFO (Chapter 571W of the Laws of Hong Kong).

If the Offer Size Adjustment Option is exercised in full, the additional Offer Shares will represent approximately 3.6% of the enlarged issued share capital of our Company in issue following completion of the Share Offer, the Capitalisation Issue and the exercise of the Offer Size Adjustment Option but without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme.

The additional net proceeds that we would receive if the Offer Size Adjustment Option is exercised in full (assuming the Offer Price of HK\$0.7 per Share (being the mid-point of the indicative Offer Price range)) are estimated to be approximately HK\$10.0 million, which would be applied to the respective uses on a pro-rata basis as disclosed in the section headed “Future plans and use of proceeds — Implementation plans” in this prospectus.

We will disclose in the allotment results announcement whether the Offer Size Adjustment Option is exercised.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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 AND BOARD LOT SIZE

Assuming that the Share Offer becomes unconditional at or before 8:00 a.m. on Friday, 26 January 2018, it is expected that dealings in the Shares on GEM will commence at 9:00 a.m. on Friday, 26 January 2018. The Shares will be traded in board lots of 4,000 Shares.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES AND EMPLOYEE RESERVED 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; 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.

In addition, if you are an Eligible Employee, you may also apply for Employee Reserved Shares by using a **PINK** Application Form.

Our Company, 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 under U.S. Securities Act); and
- are not a legal or natural person of the PRC.

You can also apply for Employee Reserved Shares by using a **PINK** Application Form if you satisfy the above criteria and you are also an Eligible Employee.

If you apply for Public Offer Shares online through the **HK eIPO White Form** service, 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.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES AND EMPLOYEE RESERVED SHARES

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 Joint Bookrunners may accept it at its discretion and on any conditions it thinks 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** service for the 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 our subsidiaries;
- a Director or chief executive officer of our Company and/or any of our subsidiaries;
- a connected person of our Company or will become a connected person of our Company immediately upon completion of the Share Offer;
- an associate of any of the above; and
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES AND EMPLOYEE RESERVED 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.

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.

If you are an Eligible Employee, and want the Employee Reserved Shares to be issued in your own name and want your application be given preferential treatment under the Employee Preferential Offer, use a **PINK** Application Form. Your application must be in one of the number set out in table in the **PINK** Application Form, or your application will be rejected.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES AND EMPLOYEE RESERVED SHARES
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Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 12 January 2018 until 12:00 noon on Wednesday, 17 January 2018 from:

- (i) the office of the Joint Bookrunners:

Alliance Capital Partners Limited

Room 1502-1503A
Wing On House
71 Des Voeux Road Central
Central
Hong Kong

SPDB International Capital Limited

Suites 3207-3212, 32/F
One Pacific Place
88 Queensway
Hong Kong

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

- (ii) any of the following branches of DBS Bank (Hong Kong) Limited, the receiving bank for the Public Offer:

District	Branch name	Address
Hong Kong Island	United Centre Branch	Shops 1015-1018 on 1/F & Shops 2032-2034 on 2/F, United Centre, 95 Queensway, Admiralty
	North Point Branch	G/F, 391 King's Road, North Point
Kowloon	Yaumatei Branch	G/F & 1/F, 131-137 Woo Sung Street, Yau Ma Tei
	Amoy Plaza Branch	Shops G193-195, Amoy Plaza, 77 Ngau Tau Kok Road, Ngau Tau Kok
	Nathan Road — SME Banking Centre	2/F, Wofoo Commercial Building, 574-576 Nathan Road, Mongkok
New Territories	Yuen Long Branch	G/F, 1-5 Tai Tong Road, Yuen Long

HOW TO APPLY FOR THE PUBLIC OFFER SHARES AND EMPLOYEE RESERVED SHARES

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 12 January 2018 until 12:00 noon on Wednesday, 17 January 2018 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

A **PINK** Application Form together with this prospectus can be collected by the Eligible Employees during normal business hours from 9:00 a.m. on Friday, 12 January 2018 until 12:00 noon on Tuesday, 16 January 2018 from our Company's office at 7/F, 822 Lai Chi Kok Road, Kowloon, Hong Kong. Electronic copies of the **PINK** Application Form and this prospectus can be viewed from the websites of our Company at www.mansionintl.com and the Stock Exchange at www.hkexnews.hk, respectively.

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 "Ting Hong Nominees Limited — Mansion 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, 12 January 2018 — 9:00 a.m. to 5:00 p.m.
- Saturday, 13 January 2018 — 9:00 a.m. to 1:00 p.m.
- Monday, 15 January 2018 — 9:00 a.m. to 5:00 p.m.
- Tuesday, 16 January 2018 — 9:00 a.m. to 5:00 p.m.
- Wednesday, 17 January 2018 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 17 January 2018, the last application day or such later time as described in the paragraph headed "Effect of bad weather on the opening of the applications lists" in this section.

Your completed **PINK** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Ting Hong Nominees Limited — Mansion Public Offer" for the payment must be deposited in the collection point located at our Company's office at 7/F, 822 Lai Chi Kok Road, Kowloon, Hong Kong by 12:00 noon on Tuesday, 16 January 2018, being the last day for the submission of the **PINK** Application Forms, or such later time as described in the paragraph headed "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.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES AND EMPLOYEE RESERVED SHARES

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- i. undertake to execute all relevant documents and instruct and authorise our Company and/or Joint Bookrunners and/or the Joint Lead Managers (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 of Association;
- ii. agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- iii. confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the 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;
- vi. agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, 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 Placing Shares under the Placing nor participated in the Placing;
- viii. agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Joint Bookrunners, the Joint Lead Managers, 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 Joint Bookrunners, the Joint Lead Managers 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;

<p style="text-align: center;">HOW TO APPLY FOR THE PUBLIC OFFER SHARES AND EMPLOYEE RESERVED SHARES</p>

- 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 U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside 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;
- xvii. understand that our Company, the Joint Bookrunners and the Joint Lead Managers 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 to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person, other than on a **PINK** Application Form as an Eligible Employee; 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 (except that Eligible Employees may also make an additional application for the Employee Reserved Shares by using the **PINK** Application Forms); 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.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES AND EMPLOYEE RESERVED SHARES

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in “Who can apply” section, may apply through the **HK eIPO White Form** service for the Public Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **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** service.

Time for Submitting Applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 12 January 2018 until 11:30 a.m. on Wednesday, 17 January 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 17 January 2018 or such later time under the paragraph headed “Effect of bad weather on the opening of the applications lists” in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** service 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 instruction under **HK eIPO White Form** more than once and obtaining different payment 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** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

<p style="text-align: center;">HOW TO APPLY FOR THE PUBLIC OFFER SHARES AND EMPLOYEE RESERVED SHARES</p>

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 "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.

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 Joint Lead Managers 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;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES AND EMPLOYEE RESERVED SHARES

- 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 Placing 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;
- 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 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, the Hong Kong Branch Share Registrar, the receiving bank, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their 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

HOW TO APPLY FOR THE PUBLIC OFFER SHARES AND EMPLOYEE RESERVED SHARES

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 of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Memorandum and Articles of Association of our Company; 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;

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- 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 4,000 Public Offer Shares. Instructions for more than 4,000 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.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Friday, 12 January 2018 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Monday, 15 January 2018 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Tuesday, 16 January 2018 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Wednesday, 17 January 2018 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Participants can input electronic application instructions from 9:00 a.m. on Friday, 12 January 2018 until 12:00 noon on Wednesday, 17 January 2018 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Wednesday, 17 January 2018, the last application day or such later time as described in the paragraph headed “Effect of bad weather on the opening of the application lists” in this section.

<p style="text-align: center;">HOW TO APPLY FOR THE PUBLIC OFFER SHARES AND EMPLOYEE RESERVED SHARES</p>

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 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.

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** service 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 Sole Sponsor, the Joint Bookrunners 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** service 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 Wednesday, 17 January 2018.

<p style="text-align: center;">HOW TO APPLY FOR THE PUBLIC OFFER SHARES AND EMPLOYEE RESERVED SHARES</p>

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.

In addition, if you are an Eligible Employee you may also make an application for Employee Reserved Shares by using a **PINK** Application Form. Only one application for Employee Reserved Shares is permitted per Eligible Employee under the Employee Preferential Offer. Multiple applications by any Eligible Employee via **PINK** Application Form are liable to be rejected.

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 the **HK eIPO White Form** service, 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 that company;
- control more than half of the voting power of that company; or
- hold more than half of the issued share capital of that 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).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES AND EMPLOYEE RESERVED SHARES

9. HOW MUCH ARE THE PUBLIC OFFER SHARES AND THE EMPLOYEE RESERVED SHARES

The Application Forms have tables showing the exact amount payable for the numbers of Offer Shares that may be applied for.

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** service in respect of a minimum of 4,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 4,000 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.

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, see the section headed “Structure and conditions of the Share Offer — Determining the Offer Price” 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 Wednesday, 17 January 2018. 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 Wednesday, 17 January 2018 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”, 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, 25 January 2018 (i) on our Company’s website at www.mansionintl.com; and (ii) the website of the Stock Exchange at www.hkexnews.hk.

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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.mansionintl.com and the Stock Exchange's website at www.hkexnews.hk by no later than 9:00 a.m. on Thursday, 25 January 2018;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, 25 January 2018 to 12:00 midnight on Wednesday, 31 January 2018;
- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 25 January 2018 to Tuesday, 30 January 2018 on a business day;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 25 January 2018 to Monday, 29 January 2018 at all the receiving bank's designated branches and sub-branches.

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. Further details are contained in 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 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 to the **HK eIPO White Form** Service Provider, 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 THE PUBLIC OFFER SHARES AND EMPLOYEE RESERVED 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 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 Listing Department does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Department 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** service are not completed in accordance with the instructions, terms and conditions on the designated website;

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- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- 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 50% 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\$0.78 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with "Structure and conditions of the Share Offer — Conditions of the Share Offer" in this prospectus 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, 25 January 2018.

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) and one share certificate for all Employee Reserved Shares allocated to you under the Employee Preferential Offer.

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**, **YELLOW** or **PINK** 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

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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). 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 dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, 25 January 2018. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 26 January 2018 provided that the Share Offer has become unconditional and the right of termination described in the "Underwriting" section 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 or PINK 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 the Hong Kong Branch Share Registrar, 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, 25 January 2018 or such other date as notified by us on the website of our Company at www.mansionintl.com or on the website of the Stock Exchange at www.hkexnews.hk.

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, 25 January 2018, by ordinary post and at your own risk.

<p style="text-align: center;">HOW TO APPLY FOR THE PUBLIC OFFER SHARES AND EMPLOYEE RESERVED SHARES</p>

(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. 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, 25 January 2018, by ordinary post and at your own risk.

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, 25 January 2018, 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 are applying 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 "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 25 January 2018 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 service

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 the Hong Kong Branch Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 25 January 2018, or such other date as notified by our Company on the website of our Company at www.mansionintl.com or on the website of the Stock Exchange at www.hkexnews.hk 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, 25 January 2018 by ordinary post at your own risk.

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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.

(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, 25 January 2018, 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 "Publication of Results" above on Thursday, 25 January 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 25 January 2018 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 "Operating Guide for Investor Participants" in effect from time to time) on Thursday, 25 January 2018. 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.

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- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy 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, 25 January 2018.

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 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 stockbroker or other professional adviser 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-65, received from the Company's reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



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The Directors

Mansion International Holdings Limited
Alliance Capital Partners Limited

Introduction

We report on the historical financial information of Mansion International Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) set out on pages I-1 to I-65, which comprises the consolidated statements of financial position as at 31 March 2016, 31 March 2017 and 31 August 2017 and the statement of the financial position of the Company as at 31 August 2017, 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 years ended 31 March 2016 and 2017 and the five months ended 31 August 2017 (the “Relevant Periods”) 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-1 to I-65 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 12 January 2018 (the “Prospectus”) in connection with the initial listing of shares of the Company on the Growth Enterprise Market (the “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 presentation and preparation set out in Note 1.4 and Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting 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 presentation and preparation set out in Note 1.4 and Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Company's financial position as at 31 August 2017, the Group's financial position as at 31 March 2016, 31 March 2017 and 31 August 2017 and of the Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of presentation and preparation set out in Note 1.4 and Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the five months ended 31 August 2016 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Note 1.4 and Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Note 1.4 and Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information and the Stub Period Comparative Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 13 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No financial statements for the Company

No financial statements have been prepared for the Company since its date of incorporation.

BDO Limited

Certified Public Accountants

Chan Wing Fai

Practising Certificate Number P05443

Hong Kong

12 January 2018

I. HISTORICAL FINANCIAL INFORMATION

Set of below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by BDO Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	<i>Notes</i>	Year ended 31 March		Five months period ended 31 August	
		2016	2017	2016	2017
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(Unaudited)</i>	
Revenue	5	409,765	335,810	158,027	119,663
Cost of sales		<u>(278,745)</u>	<u>(209,711)</u>	<u>(103,760)</u>	<u>(69,070)</u>
Gross Profit		131,020	126,099	54,267	50,593
Other income	6	3,496	3,131	1,835	248
Selling and distribution costs		(42,895)	(42,063)	(17,018)	(15,690)
Administrative and other expenses		(73,658)	(70,578)	(32,780)	(29,752)
Listing expenses		—	(2,129)	—	(7,924)
Finance costs	7	<u>(2,056)</u>	<u>(2,216)</u>	<u>(692)</u>	<u>(1,075)</u>
Profit/(loss) before tax	8	15,907	12,244	5,612	(3,600)
Income tax expenses	11	<u>(4,736)</u>	<u>(1,975)</u>	<u>(858)</u>	<u>(1,234)</u>
Total comprehensive income for the year/period		<u>11,171</u>	<u>10,269</u>	<u>4,754</u>	<u>(4,834)</u>

Consolidated Statements of Financial Position

		As at 31 March		As at
		2016	2017	31 August
	Notes	HK\$'000	HK\$'000	2017
				HK\$'000
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	14	15,793	14,176	15,590
Land use rights	15	990	899	933
Deposits		5,075	5,142	5,059
Club debentures	16	820	820	820
Deferred tax assets		—	929	929
		<u>22,678</u>	<u>21,966</u>	<u>23,331</u>
Current assets				
Inventories	17	67,478	51,140	51,180
Trade receivables	18	16,344	24,266	40,391
Deposits, prepayments and other receivables	19	4,607	5,227	9,251
Amounts due from related companies	20	6,333	6,772	—
Amount due from a director	20	32,732	9,908	16,349
Cash and cash equivalents	21	<u>12,176</u>	<u>26,714</u>	<u>19,128</u>
		<u>139,670</u>	<u>124,027</u>	<u>136,299</u>
Current liabilities				
Trade and bills payable	22	44,583	35,553	35,748
Accruals and other payables	23	16,594	15,412	14,938
Amount due to a related company	20	1,790	1,548	—
Loan from a shareholder	24	5,000	10,000	10,000
Bank borrowings	25	53,189	36,095	56,374
Finance lease liabilities	26	625	213	87
Tax payables		<u>2,481</u>	<u>1,419</u>	<u>667</u>
		<u>124,262</u>	<u>100,240</u>	<u>117,814</u>
Net current assets		<u>15,408</u>	<u>23,787</u>	<u>18,485</u>
Total assets less current liabilities		<u>38,086</u>	<u>45,753</u>	<u>41,816</u>

		As at 31 March		As at
		2016	2017	31 August
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities				
Provision for long service payments		1,297	1,297	957
Finance lease liabilities	26	<u>381</u>	<u>160</u>	<u>123</u>
		<u>1,678</u>	<u>1,457</u>	<u>1,080</u>
Net assets		<u><u>36,408</u></u>	<u><u>44,296</u></u>	<u><u>40,736</u></u>
EQUITY				
Equity attributable to owners of the Company				
Share capital	27	8	8	—
Reserves	28	<u>36,400</u>	<u>44,288</u>	<u>40,736</u>
Total equity		<u><u>36,408</u></u>	<u><u>44,296</u></u>	<u><u>40,736</u></u>

Statement of Financial Position

	<i>Notes</i>	As at 31 August 2017 HK\$'000
ASSETS AND LIABILITIES		
Non-current assets		
Investments in subsidiaries		8
Current liabilities		
Amount due to a subsidiary (Note)		—
Net current liabilities		—
Total assets less current liabilities		8
Net assets		<u>8</u>
EQUITY		
Equity attributable to owners of the Company		
Share capital	27	—
Reserves	28(d)	<u>8</u>
Total equity		<u>8</u>

Note: The nominal value of the amount due to a subsidiary is HK\$1.

Consolidated Statements of Changes in Equity

	Issued capital HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Other reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 1 April 2015	8	5,987	288	—	6,637	15,560	28,480
Profit for the year	—	—	—	—	—	11,171	11,171
Exchange differences on translation of financial statements of foreign operations	—	—	—	—	(3,243)	—	(3,243)
Total comprehensive income for the year	—	—	—	—	(3,243)	11,171	7,928
At 31 March 2016 and 1 April 2016	8	5,987	288	—	3,394	26,731	36,408
Profit for the year	—	—	—	—	—	10,269	10,269
Exchange differences on translation of financial statements of foreign operations	—	—	—	—	(2,381)	—	(2,381)
Total comprehensive income for the year	—	—	—	—	(2,381)	10,269	7,888
At 31 March 2017 and 1 April 2017	8	5,987	288	—	1,013	37,000	44,296
Arising on reorganisation	(8)	—	—	8	—	—	—
Transactions with owners	(8)	—	—	8	—	—	—
Loss for the period	—	—	—	—	—	(4,834)	(4,834)
Exchange differences on translation of financial statements of foreign operations	—	—	—	—	1,274	—	1,274
Total comprehensive income for the period	—	—	—	—	1,274	(4,834)	(3,560)
At 31 August 2017	—	5,987	288	8	2,287	32,166	40,736
For the five months period ended 31 August 2016 (Unaudited)							
At 31 March 2016 and 1 April 2016	8	5,987	288	—	3,394	26,731	36,408
Profit for the period	—	—	—	—	—	4,754	4,754
Exchange differences on translation of financial statements of foreign operations	—	—	—	—	(1,487)	—	(1,487)
Total comprehensive income for the period	—	—	—	—	(1,487)	4,754	3,267
At 31 August 2016	8	5,987	288	—	1,907	31,485	39,675

Consolidated Statements of Cash Flows

	Notes	Year ended 31 March		Five months period ended 31 August	
		2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000
				<i>(Unaudited)</i>	
Cash flows from operating activities					
Profit/(loss) before tax		15,907	12,244	5,612	(3,600)
Adjustments for:					
Finance costs	7	2,056	2,216	692	1,075
Depreciation of property, plant and equipment	8	6,199	4,542	1,943	1,664
Amortisation of land use rights	8	33	31	13	13
Interest income	6	(14)	(10)	(3)	(2)
Write-down of inventories	8	195	—	—	—
Gain on disposal of property, plant and equipment	8	—	(45)	(44)	(100)
Written off of property, plant and equipment	8	189	324	330	431
Operating cashflow before working capital changes		24,565	19,302	8,543	(519)
Decrease/(increase) in inventories		3,363	16,338	16,703	(40)
Decrease/(increase) in trade receivables		7,761	(7,922)	(18,110)	(16,125)
Decrease/(increase) in deposits, prepayments and other receivables		4,353	(687)	(1,199)	(3,941)
(Decrease)/increase in trade and bills payable		(14,784)	(9,030)	(5,110)	195
Decrease in provision for long service payments		—	—	—	(340)
Increase/(decrease) in accruals and other payables		2,342	(1,182)	(1,300)	(474)
Cash generated from operations		27,600	16,819	(473)	(21,244)
Income taxes paid		(3,136)	(3,966)	(285)	(1,986)
Net cash generated from/(used in) operating activities		24,464	12,853	(758)	(23,230)

APPENDIX I

ACCOUNTANTS' REPORT

	Year ended 31 March		Five months period ended 31 August	
	2016	2017	2016	2017
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Unaudited)</i>	
Cash flows from investing activities				
Bank interest received	14	10	3	2
Purchases of property, plant and equipment	(4,852)	(3,894)	(2,496)	(3,005)
Proceeds from disposal of property, plant and equipment	—	52	51	100
Decrease/(increase) in amounts due from related companies	3,842	(439)	(28)	6,772
Decrease in pledged bank deposit	5,013	—	—	—
Net cash generated from/(used in) investing activities	<u>4,017</u>	<u>(4,271)</u>	<u>(2,470)</u>	<u>3,869</u>
Cash flows from financing activities				
Advances from/(repayment to) a director	4,948	27,824	22,361	(6,441)
Increase/(decrease) in amounts due to a related company	1,790	(242)	318	(1,548)
Interest paid	(2,048)	(2,209)	(689)	(1,073)
Repayment of bank borrowings	(40,854)	(39,726)	(27,802)	(32,127)
New bank borrowings	2,293	22,765	22,538	52,111
Repayments of obligations under finance leases	(694)	(640)	(278)	(165)
Net cash (used in)/generated from financing activities	<u>(34,565)</u>	<u>7,772</u>	<u>16,448</u>	<u>10,757</u>
Net (decrease)/increase in cash and cash equivalents	<u>(6,084)</u>	<u>16,354</u>	<u>13,220</u>	<u>(8,604)</u>
Cash and cash equivalents at beginning of the year/period	<u>21,097</u>	<u>12,176</u>	<u>12,176</u>	<u>26,714</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(2,837)</u>	<u>(1,816)</u>	<u>(1,102)</u>	<u>1,018</u>
Cash and cash equivalents at end of the year/period	21 <u>12,176</u>	<u>26,714</u>	<u>24,294</u>	<u>19,128</u>

II NOTES TO HISTORICAL FINANCIAL INFORMATION

1.1 General information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 17 May 2017. The Company's registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in the sale of baby and children garments (the "Business").

The immediate and ultimate holding company is Joyful Cat Limited ("Joyful Cat"), a company incorporated in the British Virgin Islands ("BVI") and wholly-owned by Ms. Fung Sau Ying ("Ms. Fung" or the "Controlling shareholder").

1.2 Reorganisation

Prior to the incorporation of the Company and the completion of the Reorganisation, the Business was carried on by companies now comprising the Group (hereinafter collectively referred to as the "Operating Companies").

Pursuant to the Reorganisation as detailed in the section headed "History, Development and Reorganisation" in the Prospectus, in preparation for the listing of shares of the Company on GEM of the Stock Exchange (the "Listing") and for the purpose of rationalising the Group's structure, the Company became the holding company of the subsidiaries now comprising the Group on 23 June 2017 by way of transfer of equity interests in Mansion Success Holdings Limited ("Mansion Success") to the Company in consideration of the Company's allotment and issue of 100 shares to the shareholder of Mansion Success.

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 16 May 2017, Joyful Cat was incorporated in the BVI and its authorised shares are 50,000 shares with a par value of HK\$1 each. Joyful Cat allotted and issued one share in, representing the entire issued share capital of, Joyful Cat to Ms. Fung.
2. On 17 May 2017, the Company was incorporated in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 shares with a par value of HK\$0.01 each. One share was allotted and issued in, representing the entire issued share capital of, the Company to the initial subscriber, which was subsequently transferred to Joyful Cat on the same date.

3. On 22 May 2017, LFC Partners Limited (“LFC Partners”) was incorporated in the BVI and its authorised shares are 50,000 shares with a par value of HK\$1 each. LFC Partners allotted and issued one share in, representing the entire issued share capital of, LFC Partners to the Company.
4. On 23 June 2017, Ms. Fung as vendor and the Company as purchaser entered into an agreement for sale and purchase, pursuant to which the Company acquired 1,000 shares in, representing the entire issued share capital of, Mansion Success from Ms. Fung at the consideration of HK\$1 (“Acquisition”).

Ms. Fung and the Company agreed to settle the consideration for the Acquisition by the Company allotting and issuing 100 new shares, credited as fully paid, to Joyful Cat.

5. On 30 June 2017, Mansion Success and LFC Partners entered into an instrument of transfer, pursuant to which Mansion Success transferred to LFC Partners two shares in, representing the entire issued share capital of Mi’Des Associated Partners Limited (“Mi’Des Associated”) at HK\$1.

On 30 June 2017, Mansion Success and LFC Partners entered into an instrument of transfer and bought and sold notes, pursuant to which Mansion Success transferred to LFC Partners 1,000,000 shares in, representing the entire issued share capital of, Babies Trendyland Limited (“Babies Trendyland”), at HK\$1.

6. The authorised share capital of the 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 of par value of HK\$0.01 each by the creation of an additional of 1,962,000,000 shares.

1.3 Corporate information

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies with limited liability, the particulars of which are set out as follows:

Name	Place and date of incorporation	Place of operation and principal activity	Issued ordinary share capital	Percentage of equity attributable to the Company		Auditors	Years of audit
				Directly	Indirectly		
Mansion Success	BVI 13 February 2015	Hong Kong ("HK") Investment holding	US\$1,000	100%	—	N/A	Note 3
LFC Partners	BVI 22 May 2017	BVI Investment holding	HK\$1	100%	—	N/A	Note 3
Mantex Supplies Company Limited ("Mantex Supplies")	HK 21 July 1994	HK Wholesale of children wear	HK\$694,000	—	100%	HLB Hodgson Impey Cheng Limited	Note 2
						N/A	Note 4
Martex International Limited ("Martex International")	HK 14 January 1998	HK Investment holding	HK\$1,009,900	—	100%	BDO Limited	Note 2, 5
Babies Trendyland	HK 8 June 2004	HK Trading of children wear	HK\$1,000,000	—	100%	HLB Hodgson Impey Cheng Limited	Note 2
						N/A	Note 4
Mi'Des Associated	BVI 7 June 2004	HK Dormant	US\$2	—	100%	N/A	Note 3
中山美麗華兒童服裝製品有限公司 (Mei Li Hua Children Garment Company Limited)	The People's Republic of China ("PRC") 23 March 1993	PRC Manufacturing of children wear	RMB15,082,206	—	100%	中山市中正聯合會計 師事務所有限公司	Note 1
中山嬰皇嬰兒用品有限公司 (Ying Huang Baby Products Company Limited)*	PRC 3 June 2011	PRC Trading of children wear	RMB2,300,000	—	100%	N/A	Note 3
廣州民博貿易有限公司 (Min Bo Trading Company Limited)*	PRC 7 November 2012	PRC Trading of children wear	RMB1,500,000	—	100%	N/A	Note 3

Note 1 For the years ended 31 December 2015 and 2016.

Note 2 For the years ended 31 March 2015 and 2016.

Note 3 No audited financial statements have been prepared for these subsidiaries as there is no statutory requirement to issue statutory financial statements under their respective places of incorporation.

Note 4 The statutory financial statements of these subsidiaries for the year ended 31 March 2017 were not yet issued as of date of this report.

Note 5 The statutory financial statements of the subsidiary for the year ended 31 March 2017 has been issued.

* 中山嬰皇嬰兒用品有限公司 was deregistered on 23 March 2016 and 廣州民博貿易有限公司 was deregistered on 14 March 2016.

1.4 Basis of presentation

Immediately prior to and after the Reorganisation, the Business is controlled and operated by the Controlling shareholder. The Business is conducted through the subsidiaries of the Company. Pursuant to the Reorganisation, the Business are transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a reorganisation of the Business with no change in management and the ultimate owner remains the same.

All significant intra-group transactions, balances and unrealised gains on transactions have been eliminated on combination. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred.

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 Relevant Periods include results and cash flows of the Company and its subsidiaries from 1 April 2015, or since the Company's and its subsidiaries' respective dates of incorporation whichever is shorter, as if current group structure had been in existence throughout the Relevant Periods. The consolidated statements of financial position of the Group as at 31 March 2016, 31 March 2017 and 31 August 2017 have been prepared to present the state of affairs of the companies now comprising the Group as the respective dates as if the current group structure had been in existence as at the respective dates.

2.1 Basis of preparation

The Historical Financial Information and the Stub Period Comparative Financial Information set out in this report has been prepared in accordance with the basis of presentation set out in note 1.4 of Section II, and the accounting policies in note 3 of Section II which conform to the Hong Kong Financial Reporting Standards issued by the HKICPA, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

During the Relevant Periods, the HKICPA issued a number of new/revised HKFRS. For the purpose of preparing this Historical Financial Information, the Group has consistently adopted all of these new / revised HKFRS that are relevant to its operations and effective during the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention. The Historical Financial Information is presented in HK\$, which is the same as the functional currency of the Company, and all values are rounded to the nearest thousands, except when otherwise indicated.

2.2 New/revised HKFRSs that have been issued but are not yet effective

The following new / revised HKFRSs have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15) ¹
HKFRS 16	Leases ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 40	Transfers of Investment Property ¹
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax treatments ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ No mandatory effective date yet determined but is available for early adoption

Amendments to HKFRS 2 — Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

HKFRS 9 — Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income (“FVTOCI”) if the objective of the entity’s business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss (“FVTPL”).

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The initial adoption of HKFRS 9 would not have a significant impact on the Group’s financial position and performance.

HKFRS 15 — Revenue from Contracts with customers

The new standard establishes a single revenue recognition framework. The core principle of the framework 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 and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps 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 each performance obligation

- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The initial adoption of HKFRS 15 would not have a significant impact on the Group's financial position and performance.

Amendments to HKFRS 15 — Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

HKFRS 16 — Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Total operating lease commitments of the Group as at 31 August 2017 amounted to approximately HK\$22.6 million. The directors anticipate the adoption of HKFRS 16 as compared with the current accounting policy may affect the Group's results. Had HKFRS 16 been adopted as at 31 August 2017, the directors anticipate to recognise a right-of-use asset of HK\$15 million and a lease liability of HK\$15 million as at 31 August 2017.

The initial adoption of HKFRS16 would not have a significant impact on the Group's financial position and performance.

Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

For the years ended 31 March 2016 and 2017 and for the five months period ended 31 August 2017, the Group did not have any interests in associates or joint ventures. The directors consider that there is no impact of the amendments to HKFRS 10 and HKAS 28 on the Group.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

3. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of the Historical Financial Information are summarised below. These policies have been consistently applied to all the years/periods presented unless otherwise stated.

(a) Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and its subsidiaries comprising the Group for the Relevant Periods.

All intra-group transactions, balances and unrealised gains on transactions have been eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (1) power over the investee; (2) exposure, or rights, to variable returns from the investee; and (3) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment comprises its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each Relevant Periods. The useful lives are as follows:

Buildings	10 to 20 years
Leasehold improvements	2 to 10 years or over the lease term whichever is the shorter
Plant and machinery	3 to 5 years
Furniture, fixtures and equipment	3 to 5 years
Motor vehicles	5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(d) Club Debentures

Acquired club debentures are stated at historical cost less accumulated impairment losses, if any. They are measured at the fair value of the consideration given to acquire the club debenture at the time of the acquisition. The club debenture is tested annually for impairment.

(e) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs

incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

(f) Land use rights

Land use rights represent upfront payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight line basis over 50 years (the term of the lease/ right to use).

(g) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

(h) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For Loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and bills payable, accruals and other payables, amount due to a related company, loan from a shareholder, bank borrowings and finance lease liabilities are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

(vii) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(i) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) *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.

Sales of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Income from sale of consigned goods

Income from sale of consigned goods is recognised when consigned goods are sold and the related risks and rewards of ownership of the goods have been transferred to the customers.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of interest can be measured reliably. 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.

(k) Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

(l) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current and future tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(m) Foreign currency

Transactions entered into by the Company in currencies other than the currency of the primary economic environment in which it/they operate(s) (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. 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 translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. HK\$) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

(n) Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development.

(o) Employee benefits

Retirement benefits to employees are provided through defined contribution plans. The Group operates a defined contribution benefit plan under the Mandatory Provident Fund Schemes Ordinance (the "MPF Scheme"), for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

Employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of employees' salaries to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

The Group's net obligation in respect of long-service payments on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods; and that such future benefit is discounted to determine the present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group.

(p) Impairment of non-financial assets

At the end of each reporting periods, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment under cost model; and
- interests in subsidiaries.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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 as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Value in use is based on the estimated future cash flows expected to be derived from the asset, 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 or cash generating unit.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probably will result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Related parties

- (i) A person or a close member of that person's family is related to the Group if that person:
 - (a) has control or joint control over the Group;
 - (b) has significant influence over the Group; or
 - (c) is a member of key management personnel of the Group or the Company's parent.

- (ii) An entity is related to the Group if any of the following conditions apply:
 - (a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (c) Both entities are joint ventures of the same third party.
 - (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (e) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
 - (f) The entity is controlled or jointly controlled by a person identified in (i).
 - (g) A person identified in (i) (a) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
 - (h) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

4. Significant accounting judgements and estimates

The preparation of the Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Net realisable value of inventories

At reporting date, the Group reviews the carrying value of its inventories to ensure that they are stated at the lower of cost and net realisable value. In assessing net realisable value of the Group's inventories, an estimate of the reliable amount of the inventories on hand is performed by management based on the most reliable evidence available at the time the estimate is made. This represents the value of inventories which are expected to realise as estimated by management. These estimates take into consideration the fluctuations of price or cost, of any inventory on hand that may be realised, directly relating to events occurring after the end of the financial year to the extent that such events confirm conditions existing at the end of the financial year. The carrying amount of inventories is disclosed in note 17.

(ii) Estimated useful lives of property, plant and equipment

In assessing the estimated useful lives of the property, plant and equipment, the Group takes into account factors, such as the expected usage of the assets by the Group based on past experience, the technical obsolescence arising from changes or improvements in production or from a change in the market demand for the products. The estimation of the useful lives is a matter of judgement based on the experience of the Group. The carrying amount of property, plant and equipment is disclosed in note 14.

(iii) Allowance for and written off of irrecoverable receivables

The Group's management determines the allowance for irrecoverable receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. When the Group's management determines that there are indicators of significant financial difficulties of the debtors such as default or delinquency in payments, allowance for debtors are estimated. Management of the Group reassesses the estimation at the reporting date.

When the Group's management determines the debtors are uncollectible, they are written off against the allowance account for debtors. Any amount held in the allowance account in respect of those debtors is reversed.

The carrying amount of trade receivables is disclosed in note 18.

(iv) Income taxes

The Group is subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the years/periods in which such determination is made.

5. Revenue and segment information

The Group determines its operating segments based on the internal reports reviewed by the Executive Directors of the Company, who are the chief operating decision maker, that are used to allocate resources and assess performance, which are analysed based on the business.

Segment result represents the profit/(loss) before taxation earned by each segment and excluding unallocated other income and unallocated expenses. Unallocated expenses mainly included staff costs, listing expenses and finance costs. This is the measure reported to the Executive Directors for the purpose of resource allocation and assessment of segment performance.

The following is an analysis of the Group's turnover and results by business.

Year ended 31 March 2016	Original Brand Manufacturing ("OBM") <i>HK\$'000</i>	Original Equipment Manufacturing ("OEM") <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE			
External sales	<u>80,337</u>	<u>329,428</u>	<u>409,765</u>
RESULT			
Gross profit	63,985	67,035	131,020
Segment result	<u>13,477</u>	<u>24,278</u>	<u>37,755</u>
Staff costs			(5,552)
Finance costs			(2,056)
Losses on deregistration of subsidiaries			(1,367)
Repair and maintenance			(944)
Office utilities			(1,284)
Telephone expenses			(823)
Travelling expenses			(1,129)
Advertising and promotion expenses			(1,274)
Inspection, sample and testing expenses			(941)
Entertainment expenses			(799)
Motor vehicle expenses			(722)
Others			<u>(4,957)</u>
Profit before tax			<u><u>15,907</u></u>

APPENDIX I**ACCOUNTANTS' REPORT**

Year ended 31 March 2017	OBM <i>HK\$'000</i>	OEM <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE			
External sales	<u>79,719</u>	<u>256,091</u>	<u>335,810</u>
RESULT			
Gross profit	58,910	67,189	126,099
Segment result	<u>7,940</u>	<u>27,755</u>	<u>35,695</u>
Staff costs			(6,058)
Finance costs			(2,216)
Repair and maintenance			(938)
Office utilities			(1,250)
Telephone expenses			(746)
Travelling expenses			(1,311)
Listing expenses			(2,129)
Advertising and promotion expenses			(1,537)
Inspection, sample and testing expenses			(1,204)
Entertainment expenses			(567)
Motor vehicle expenses			(678)
Others			<u>(4,817)</u>
Profit before tax			<u><u>12,244</u></u>

APPENDIX I**ACCOUNTANTS' REPORT****Five months period ended****31 August 2016****(Unaudited)****OBM***HK\$'000***OEM***HK\$'000***Total***HK\$'000***REVENUE**

External sales

28,058129,969158,027**RESULT**

Gross profit

21,891

32,376

54,267

Segment result

1,87714,48216,359

Staff costs

(4,062)

Finance costs

(692)

Repair and maintenance

(489)

Office utilities

(616)

Telephone expenses

(350)

Travelling expenses

(538)

Advertising and promotion

expenses

(599)

Inspection, sample and testing

expenses

(424)

Entertainment expenses

(200)

Motor vehicle expenses

(341)

Others

(2,436)

Profit before tax

5,612

APPENDIX I**ACCOUNTANTS' REPORT****Five months period ended
31 August 2017**

	OBM	OEM	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE			
External sales	<u>27,394</u>	<u>92,269</u>	<u>119,663</u>
RESULT			
Gross profit	22,483	28,110	50,593
Segment result	<u>1,824</u>	<u>13,102</u>	<u>14,926</u>
Staff costs			(3,932)
Finance costs			(1,075)
Repair and maintenance			(536)
Office utilities			(604)
Telephone expenses			(267)
Travelling expenses			(522)
Listing expenses			(7,924)
Advertising and promotion expenses			(301)
Inspection, sample and testing expenses			(387)
Entertainment expenses			(286)
Motor vehicle expense			(317)
Others			<u>(2,375)</u>
Loss before tax			<u><u>(3,600)</u></u>

Information on segmental revenue and result is provided to the Executive Directors on a regular basis.

The Group's revenue from external customers are divided into the following geographical areas:

	Year ended 31 March		Five months period ended 31 August	
	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
PRC, Macau and Taiwan	2,948	5,674	2,695	1,256
HK	89,844	86,909	30,925	31,931
United Kingdom ("UK")	189,788	144,420	75,846	40,826
United States of America ("USA")	127,185	98,807	48,561	45,650
	<u>409,765</u>	<u>335,810</u>	<u>158,027</u>	<u>119,663</u>

The geographical analysis of revenue is based on the location of external customers.

Information about major customers

Revenue from customers of the corresponding years/periods contributing over 10% of the total revenue of the Group are as follows:

Revenue	Year ended 31 March		Five months period ended 31 August	
	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
Customer A	119,950	65,224	43,512	N/A
Customer B	94,116	56,667	31,304	17,978
Customer C	61,583	69,758	26,731	30,244
Customer D	<u>33,069</u>	<u>42,140</u>	<u>17,257</u>	<u>20,652</u>

Note: Customer A to Customer D generate revenue to the Group in UK and USA.

Other segment information

The information of the Group's non-current assets by geographical location is detailed below:

	As at 31 March		As at 31 August
	2016	2017	2017
	HK\$'000	HK\$'000	HK\$'000
HK	11,264	11,383	12,286
PRC	11,414	10,583	11,045
	<u>22,678</u>	<u>21,966</u>	<u>23,331</u>

6. Other income

	Year ended 31 March		Five months period ended 31 August	
	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
Bank interest income	14	10	3	2
Service income	800	1,066	384	—
Sundry income (<i>Note (i)</i>)	659	1,620	941	246
Exchange gain	2,023	435	507	—
	<u>3,496</u>	<u>3,131</u>	<u>1,835</u>	<u>248</u>

Note (i): It mainly comprised over-statement of provision of bonuses, gains on disposal of property, plant and equipment, refund of Mandatory Provident Fund and insurance compensation income.

7. Finance costs

	Year ended 31 March		Five months period ended 31 August	
	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
Interest on bank borrowings	1,864	1,911	605	906
Interest on shareholder's loan	184	298	84	167
Interest on finance lease	8	7	3	2
	<u>2,056</u>	<u>2,216</u>	<u>692</u>	<u>1,075</u>

8. Profit/(loss) before tax

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Year ended 31 March		Five months period ended 31 August	
	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000
			<i>(Unaudited)</i>	
Directors' remuneration (<i>Note 9</i>)	9,714	8,215	3,956	2,968
Employee benefits expenses (excluding the directors' remuneration):				
Salaries, allowances and other benefits	113,412	115,810	50,180	45,066
Pension scheme contributions	<u>7,045</u>	<u>7,221</u>	<u>3,005</u>	<u>3,325</u>
Total staff costs	<u>130,171</u>	<u>131,246</u>	<u>57,141</u>	<u>51,359</u>
Auditor's remuneration	265	92	53	378
Depreciation of property, plant and equipment	6,199	4,542	1,943	1,664
Written off of property, plant and equipment	189	324	330	431
Amortisation of land use rights	33	31	13	13
Cost of inventories sold	278,745	209,711	103,760	69,070
Write-down of inventories	195	—	—	—
Research and development costs (<i>Note (i)</i>)	4,438	5,375	2,067	2,273
Gain on disposal of property, plant and equipment	—	(45)	(44)	(100)
Listing expenses	—	2,129	—	7,924
Minimum lease payments under operating leases recognised as an expense	28,321	28,526	11,112	11,359
Losses on deregistration of subsidiaries	<u>1,367</u>	<u>—</u>	<u>—</u>	<u>—</u>

- (i) Research and development costs include staff costs of employees in the research and development department of approximately HK\$3.6 million, HK\$4.2 million, HK\$1.8 million and HK\$1.8 million for FY2016, FY2017, SP2016 and SP2017 respectively, which are included in the staff costs as disclosed above.

9. Directors' remuneration

Directors' remuneration during the Relevant Periods which was included in the staff costs as disclosed in note 8 is as follows:

	Salaries, allowances and other benefits (Note (i)) HK\$'000	Discretionary bonus HK\$'000	Contributions to pension plan HK\$'000	Total HK\$'000
Year ended 31 March 2016				
<i>Executive directors:</i>				
Ms. Fung	6,458	917	18	7,393
Mr. Cheung Desmond Lap Wai	703	45	18	766
Ms. Ho Lai Ying	1,278	104	18	1,400
<i>Non-executive director:</i>				
Ms. Luk Sau Kuen	150	—	5	155
	<u>8,589</u>	<u>1,066</u>	<u>59</u>	<u>9,714</u>
Year ended 31 March 2017				
<i>Executive directors:</i>				
Ms. Fung	5,480	367	18	5,865
Mr. Cheung Desmond Lap Wai	816	100	18	934
Ms. Ho Lai Ying	1,285	113	18	1,416
<i>Non-executive director:</i>				
Ms. Luk Sau Kuen	—	—	—	—
	<u>7,581</u>	<u>580</u>	<u>54</u>	<u>8,215</u>

	Salaries, allowances and other benefits (Note (i)) HK\$'000	Discretionary bonus HK\$'000	Contributions to pension plan HK\$'000	Total HK\$'000
Five months ended				
31 August 2016 (Unaudited)				
<i>Executive directors:</i>				
Ms. Fung	2,465	367	8	2,840
Mr. Cheung Desmond Lap Wai	321	100	8	429
Ms. Ho Lai Ying	566	113	8	687
<i>Non-executive director:</i>				
Ms. Luk Sau Kuen	—	—	—	—
	<u>3,352</u>	<u>580</u>	<u>24</u>	<u>3,956</u>
Five months ended				
31 August 2017				
<i>Executive directors:</i>				
Ms. Fung	2,093	—	8	2,101
Mr. Cheung Desmond Lap Wai	357	—	8	365
Ms. Ho Lai Ying	494	—	8	502
<i>Non-executive director:</i>				
Ms. Luk Sau Kuen	—	—	—	—
	<u>2,944</u>	<u>—</u>	<u>24</u>	<u>2,968</u>

- (i) Ms. Fung was entitled to housing allowance of HK\$1,920,000 during the years ended 31 March 2016 and 2017, and HK\$800,000 during the five months period ended 31 August 2016 and 2017 which was accounted for in the directors' remuneration.

10. Five highest paid individuals

The five highest paid individuals of the Group included three directors of the Company whose emoluments are included above for the years ended 31 March 2016 and 2017 and the five months period ended 31 August 2016 and 2017 respectively. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	Year ended 31 March		Five months period ended 31 August	
	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
Salaries, allowances and other benefits	1,552	1,764	809	720
Pension scheme contributions	<u>36</u>	<u>36</u>	<u>15</u>	<u>15</u>
	<u>1,588</u>	<u>1,800</u>	<u>824</u>	<u>735</u>

The remuneration paid to each of the above non-director highest paid individuals for each of the Relevant Periods fell within the following band:

	Year ended 31 March		Five months period ended 31 August	
	2016	2017	2016	2017
			<i>(Unaudited)</i>	
Number of individuals				
Nil to HK\$1,000,000	2	2	2	2
HK\$1,000,001 to HK\$1,500,000	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

During the Relevant Periods, no remuneration was paid by the Group to the Directors of the Company or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

11. Income tax expenses

The amount of taxation in the consolidated statements of profit or loss and other comprehensive income represents:

	Year ended 31 March		Five months period ended 31 August	
	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			<i>(Unaudited)</i>	
Current tax				
- tax for the years/periods	3,847	2,885	1,638	1,289
- under/(over) provision in respect of prior years/periods	<u>401</u>	<u>19</u>	<u>—</u>	<u>(55)</u>
	<u>4,248</u>	<u>2,904</u>	<u>1,638</u>	<u>1,234</u>
Deferred tax				
- current years/period	<u>488</u>	<u>(929)</u>	<u>(780)</u>	<u>—</u>
Income tax expenses	<u><u>4,736</u></u>	<u><u>1,975</u></u>	<u><u>858</u></u>	<u><u>1,234</u></u>

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the years ended 31 March 2016 and 2017 and the five months period ended 31 August 2016 and 2017. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during the years ended 31 March 2016 and 2017 and the five month periods ended 31 August 2016 and 2017.

In accordance with the China enterprise income tax law, enterprise income tax rates for domestic and foreign enterprises are unified at 25%.

A reconciliation of income tax expense applicable to profit/(loss) before income tax at the statutory tax rate to income tax expense at the effective tax rate is as follows:

	Year ended 31 March		Five months period ended 31 August	
	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000
			<i>(Unaudited)</i>	
Profit/(loss) before income tax	<u>15,907</u>	<u>12,244</u>	<u>5,612</u>	<u>(3,600)</u>
Tax on profit before taxation, calculated at the rate applicable to profits in the tax jurisdictions concerned	2,625	2,020	926	(594)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(424)	486	250	301
Effect of non-taxable revenue	(330)	(331)	(157)	(144)
Effect of non tax-deductible expenses (Note (i))	1,995	1,321	400	1,638
Under/(over) provision in respect of prior years/periods	361	(21)	—	(55)
Tax effect of temporary difference not recognised	(874)	242	(66)	12
Deferred tax expense relating to the origination and reversal of temporary difference	488	(929)	(780)	—
Utilisation of tax losses previously not recognised	—	(813)	—	—
Tax loss not recognised	<u>895</u>	<u>—</u>	<u>285</u>	<u>76</u>
Income tax expenses	<u><u>4,736</u></u>	<u><u>1,975</u></u>	<u><u>858</u></u>	<u><u>1,234</u></u>

- (i) The amount comprised mainly listing expenses, certain disallowed production costs including depreciation and cost of sales, bank interests and charges and loss on subsidiaries deregistration.

12. Earnings per share

Earnings per share information is not presented as its inclusion, for the purposes of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group of the Relevant Periods on the basis as disclosed in Note 1.2 of Section II.

13. Dividend

No dividend was paid or proposed during the Relevant Periods.

The Group recommends the payment of special dividend of HK\$16,000,000 before the Share Offer.

14. Property, plant and equipment

	Buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:						
At 1 April 2015	16,001	9,504	31,018	14,470	1,824	72,817
Additions	—	3,430	823	599	—	4,852
Written off	—	(776)	—	(100)	—	(876)
Exchange realignment	(790)	(4)	(1,494)	(368)	(23)	(2,679)
At 31 March 2016 and 1 April 2016	15,211	12,154	30,347	14,601	1,801	74,114
Additions	—	2,313	1,280	301	—	3,894
Disposal	—	—	—	(10)	(160)	(170)
Written off	—	(2,887)	(722)	(183)	—	(3,792)
Exchange realignment	(934)	(18)	(1,807)	(439)	(27)	(3,225)
At 31 March 2017 and 1 April 2017	14,277	11,562	29,098	14,270	1,614	70,821
Additions	—	1,445	199	1,361	—	3,005
Disposal	—	—	—	—	(469)	(469)
Written off	—	(1,114)	—	(74)	—	(1,188)
Exchange realignment	748	21	1,466	368	20	2,623
At 31 August 2017	15,025	11,914	30,763	15,925	1,165	74,792
Accumulated depreciation:						
At 1 April 2015	13,505	5,472	23,192	11,835	915	54,919
Provided for the year	497	3,189	1,123	1,069	321	6,199
Written off	—	(605)	—	(82)	—	(687)
Exchange realignment	(678)	—	(1,112)	(304)	(16)	(2,110)
At 31 March 2016 and 1 April 2016	13,324	8,056	23,203	12,518	1,220	58,321
Provided for the year	351	2,128	1,002	869	192	4,542
Written off	—	(2,655)	(643)	(170)	—	(3,468)
Disposal	—	—	—	(10)	(153)	(163)
Exchange realignment	(827)	—	(1,362)	(378)	(20)	(2,587)
At 31 March 2017 and 1 April 2017	12,848	7,529	22,200	12,829	1,239	56,645
Provided for the period	—	903	364	329	68	1,664
Written off	—	(683)	—	(74)	—	(757)
Disposal	—	—	—	—	(469)	(469)
Exchange realignment	673	—	1,115	315	16	2,119
At 31 August 2017	13,521	7,749	23,679	13,399	854	59,202
Net carrying amount:						
At 31 March 2016	1,887	4,098	7,144	2,083	581	15,793
At 31 March 2017	1,429	4,033	6,898	1,441	375	14,176
At 31 August 2017	1,504	4,165	7,084	2,526	311	15,590

15. Land use rights

	<i>HK\$'000</i>
Cost:	
At 1 April 2015	1,689
Exchange realignment	<u>(83)</u>
At 31 March 2016 and 1 April 2016	1,606
Exchange realignment	<u>(99)</u>
At 31 March 2017 and 1 April 2017	1,507
Exchange realignment	<u>79</u>
At 31 August 2017	<u>1,586</u>
Accumulated amortisation:	
At 1 April 2015	614
Amortisation charge during the year	33
Exchange realignment	<u>(31)</u>
At 31 March 2016 and 1 April 2016	616
Amortisation charge during the year	31
Exchange realignment	<u>(39)</u>
At 31 March 2017 and 1 April 2017	608
Amortisation charge during the period	13
Exchange realignment	<u>32</u>
At 31 August 2017	<u>653</u>
Net carrying amount:	
At 31 March 2016	<u><u>990</u></u>
At 31 March 2017	<u><u>899</u></u>
At 31 August 2017	<u><u>933</u></u>

16. Club debentures

	As at 31 March		As at 31
	2016	2017	August
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Club debentures	<u>820</u>	<u>820</u>	<u>820</u>

At the end of the reporting period, the club debentures are stated at cost less accumulated impairment losses.

As at 31 March 2016 and 2017 and 31 August 2017, the Directors considered that there was no impairment of the club debentures since the market price less costs to sell were higher than its carrying value.

17. Inventories

	As at 31 March		As at 31
	2016	2017	August
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	24,632	20,527	21,431
Work in progress	23,016	12,598	11,398
Finished goods	<u>19,830</u>	<u>18,015</u>	<u>18,351</u>
	<u>67,478</u>	<u>51,140</u>	<u>51,180</u>

Cost of inventories recognised as an expense includes a write-down of inventory of approximately HK\$195,000, Nil, Nil and Nil during the years ended 31 March 2016 and 2017 and the five months period ended 31 August 2016 and 2017 respectively.

18. Trade receivables

The Group generally allows a credit policy ranging from 30 to 90 days to its trade receivables.

The following is an aged analysis of trade receivables based on the invoice dates at the end of the reporting period, which approximate the respective revenue recognition dates:

	As at 31 March		As at 31
	2016	2017	August
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	11,468	20,290	24,405
31 - 365 days	4,599	3,976	15,986
More than 1 year	<u>277</u>	<u>—</u>	<u>—</u>
	<u>16,344</u>	<u>24,266</u>	<u>40,391</u>

Management closely monitors the credit quality of trade receivables and considers trade receivables that are neither past due nor impaired are of good credit quality.

The following is an aged analysis of trade receivables which are past due but not impaired:

	As at 31 March		As at 31
	2016	2017	August
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Not past due	13,619	20,888	39,988
Within 30 days	2,217	2,953	189
31 - 365 days	231	425	214
More than 1 year	<u>277</u>	<u>—</u>	<u>—</u>
	<u>16,344</u>	<u>24,266</u>	<u>40,391</u>

The trade receivables were past due but the Group has not provided for impairment loss. These relate to a number of customers and based on historical information, default risk of these trade receivables is insignificant. Accordingly, no impairment provision is necessary in respect of these receivables.

19. Deposits, prepayments and other receivables

	As at 31 March		As at 31
	2016	2017	August
	HK\$'000	HK\$'000	2017
Deposits	2,082	2,241	2,097
Prepayments (Note)	845	2,815	5,570
Other receivables	1,680	171	1,584
	<u>4,607</u>	<u>5,227</u>	<u>9,251</u>

Note: The balance as at 31 March and 31 August 2017 included the transaction costs of an equity transaction of HK\$710,000 and HK\$3,349,000.

20. Amount(s) due from/(to) a director and related companies**(i) Amounts due from related companies**

The amounts were unsecured, interest-free and repayable on demand. The balances due from related companies had been settled on 31 August 2017.

Name of related parties	Relationships	Nature	As at 31 March		As at
			2016	2017	31 August
			HK\$'000	HK\$'000	2017
Mansion Corporate Limited	Related company controlled by Ms. Fung	Non-trade related	65	2	—
Friendly Limited	Related company controlled by Ms. Fung	Trade-related	6,250	6,724	—
Mansion Consultancy Limited	Related company controlled by Ms. Fung	Non-trade related	7	16	—
Alpha Leap Limited	Related company controlled by Ms. Fung	Non-trade related	1	1	—
Mently Limited	Related company controlled by Ms. Fung	Non-trade related	7	26	—
Mansion Manufacturing Industries Limited	Related company controlled by Ms. Fung	Non-trade related	3	3	—
			<u>6,333</u>	<u>6,772</u>	<u>—</u>

(ii) Amount due from a director

The amount was non-trade related, unsecured, interest-free and repayable on demand. The balances due from a director will be fully settled before listing.

(iii) Amount due to a related company

The amount was non-trade related, unsecured, interest-free and repayable on demand. The balance due to a related company had been settled on 31 August 2017.

21. Cash and cash equivalents

	As at 31 March		As at
	2016	2017	31 August
	<i>HK\$'000</i>	<i>HK\$'000</i>	2017
			<i>HK\$'000</i>
Cash at banks	12,119	26,644	19,070
Cash in hand	<u>57</u>	<u>70</u>	<u>58</u>
	<u>12,176</u>	<u>26,714</u>	<u>19,128</u>

22. Trade and bills payable

	As at 31 March		As at
	2016	2017	31 August
	<i>HK\$'000</i>	<i>HK\$'000</i>	2017
			<i>HK\$'000</i>
Trade payables	26,491	19,813	16,499
Bills payable	<u>18,092</u>	<u>15,740</u>	<u>19,249</u>
	<u>44,583</u>	<u>35,553</u>	<u>35,748</u>

The following is an aged analysis of trade payables:

	As at 31 March		As at
	2016	2017	31 August
	HK\$'000	HK\$'000	2017
Within 30 days	16,824	9,310	8,207
31 - 365 days	8,983	10,354	8,255
More than 1 year	<u>684</u>	<u>149</u>	<u>37</u>
	<u>26,491</u>	<u>19,813</u>	<u>16,499</u>

The Group's trade payables are denominated in United States Dollars ("USD"), RMB and HK\$, currency other than functional currency of the relevant group entities are set out below:

	As at 31 March		As at
	2016	2017	31 August
	HK\$'000	HK\$'000	2017
Denominated in USD	1,328	104	43
Denominated in RMB	<u>567</u>	<u>897</u>	<u>89</u>

23. Accruals and other payables

	As at 31 March		As at
	2016	2017	31 August
	HK\$'000	HK\$'000	2017
Other payables	675	2,752	2,322
Accrued expenses	<u>15,919</u>	<u>12,660</u>	<u>12,616</u>
	<u>16,594</u>	<u>15,412</u>	<u>14,938</u>

24. Loan from a shareholder

The amount was non-trade related, unsecured, interest bearing at 4% per annum and repayable on demand as at 31 March 2016 and 2017 and 31 August 2017. The balances due from a shareholder will be fully settled before listing.

The secured revolving bank loan bore interest at 2.7% per annum over one, two, three or six months Hong Kong Interbank Offered Rate ("HIBOR") and the limit for drawdown of the revolving loan is HK\$15,000,000.

2. As at 31 March 2017 and 31 August 2017, a revolving bank loan of HK\$15,000,000 which were secured by:
- (a) unlimited corporate guarantee from a related company, Mansion Global Enterprise Limited;
 - (b) unlimited personal guarantee from Ms. Fung;
 - (c) unlimited guarantee from a related company, Mansion Corporate Limited;
 - (d) limited cross corporate guarantee of HK\$120,000,000 (together with default interest and other costs and expenses) provided by subsidiaries and related companies, Mantex Supplies, Friendly Limited and Babies Trendyland; and
 - (e) a charge over the deposits for HK\$15,000,000 or its equivalent in other foreign currencies to be placed with the bank. In the event of the value of the foreign currency deposit charged to the bank falling below the required level and upon the bank's request, the Group should immediately pledge to the bank additional security acceptable to it to bring the value back to the threshold.

The secured revolving bank loan bore interest at 2.7% per annum over one, two, three or six months HIBOR and the limit for drawdown of the revolving loan is HK\$15,000,000.

3. As at 31 March 2016, a revolving bank loan of HK\$5,000,000 which was secured by:
- (a) pledge of a property at Flat B, 6/F., Tower 6 and Car parking Space No. 123 on Basement 1, Aegean Coast, No.2 Kwun Tsing Road, Tuen Mun, New Territories from a related company, Friendly Limited as the mortgagor;
 - (b) unlimited corporate guarantee provided by a subsidiary, Mantex Supplies; and
 - (c) unlimited personal guarantee from Ms. Fung.

The secured revolving bank loan bore interest at 2.75% per annum over HIBOR and the limit for the drawdown of the revolving loan is HK\$5,000,000.

4. As at 31 March 2017, a revolving bank loan of HK\$12,000,000 which was secured by:
- (a) pledge of a property at Flat B and C, 8/F, Tower 16, Providence Peak, Tai Po, New Territories from a related company, Bestley Limited for the account of the subsidiaries, Mantex Supplies, Babies Trendyland and Martex International;
 - (b) pledge of a property at No. 23 Mei Wo Circuit, Shatin, New Territories from a related company, Wiseley (Hong Kong) Limited for the account of the subsidiaries, Mantex Supplies, Babies Trendyland and Martex International;
 - (c) guarantee and indemnity of HK\$95,000,000 (together with interest and other charges) provided by Ms. Fung for the account of Mantex Supplies;
 - (d) guarantee and indemnity of HK\$95,000,000 (together with interest and other charges) provided by a related company, Bestley Limited for the account of Mantex Supplies;

- (e) guarantee and indemnity of HK\$95,000,000 (together with interest and other charges) provided by a subsidiary, Babies Trendyland for the account of Mantex Supplies;
- (f) guarantee and indemnity of HK\$95,000,000 (together with interest and other charges) provided by a related company, Wiseley (Hong Kong) Limited for the account of Mantex Supplies;
- (g) guarantee and indemnity of HK\$95,000,000 (together with interest and other charges) provided by a subsidiary, Martex International for the account of Mantex Supplies;
- (h) guarantee and indemnity of HK\$25,000,000 (together with interest and other charges) provided by a subsidiary, Mantex Supplies for the account of Martex International;
- (i) guarantee and indemnity of HK\$25,000,000 (together with interest and other charges) provided by a subsidiary, Babies Trendyland for the account of Martex International;
- (j) guarantee and indemnity of HK\$25,000,000 (together with interest and other charges) provided by a subsidiary, Wiseley (Hong Kong) Limited for the account of Martex International;
- (k) guarantee and indemnity of HK\$25,000,000 (together with interest and other charges) provided by related company, Bestley Limited for the account of Martex International; and
- (l) guarantee and indemnity of HK\$25,000,000 (together with interest and other charges) provided by Ms. Fung for the account of Martex International.

The secured revolving bank loan bore interest at 2.7% per annum over HIBOR and the limit for the drawdown of the revolving loan is HK\$22,000,000.

5. As at 31 August 2017, a revolving bank loan of HK\$25,000,000 which was secured by:
- (a) pledge of a property at Flat B and C, 8/F, Tower 16, Providence Peak, Tai Po, New Territories from a related company, Bestley Limited for the account of the subsidiaries, Mantex Supplies, Babies Trendyland and Martex International;
 - (b) pledge of a property at No. 23 Mei Wo Circuit, Shatin, New Territories from a related company, Wiseley (Hong Kong) Limited for the account of the subsidiaries, Mantex Supplies, Babies Trendyland and Martex International;
 - (c) guarantee and indemnity of HK\$95,000,000 (together with interest and other charges) provided by Ms. Fung for the account of Mantex Supplies;
 - (d) guarantee and indemnity of HK\$95,000,000 (together with interest and other charges) provided by a related company, Bestley Limited for the account of Mantex Supplies;
 - (e) guarantee and indemnity of HK\$95,000,000 (together with interest and other charges) provided by a subsidiary, Babies Trendyland for the account of Mantex Supplies;
 - (f) guarantee and indemnity of HK\$95,000,000 (together with interest and other charges) provided by a related company, Wiseley (Hong Kong) Limited for the account of Mantex Supplies;
 - (g) guarantee and indemnity of HK\$95,000,000 (together with interest and other charges) provided by a subsidiary, Martex International for the account of Mantex Supplies;

- (h) guarantee and indemnity of HK\$27,000,000 (together with interest and other charges) provided by a subsidiary, Mantex Supplies for the account of Martex International;
- (i) guarantee and indemnity of HK\$27,000,000 (together with interest and other charges) provided by a subsidiary, Babies Trendyland for the account of Martex International;
- (j) guarantee and indemnity of HK\$27,000,000 (together with interest and other charges) provided by a subsidiary, Wiseley (Hong Kong) Limited for the account of Martex International;
- (k) guarantee and indemnity of HK\$27,000,000 (together with interest and other charges) provided by related company, Bestley Limited for the account of Martex International; and
- (l) guarantee and indemnity of HK\$27,000,000 (together with interest and other charges) provided by Ms. Fung for the account of Martex International.

The secured revolving bank loan bore interest at 2.7% per annum over HIBOR and the limit for the drawdown of the revolving loan is HK\$32,000,000.

6. As at 31 March 2017 and 31 August 2017, a revolving bank loan of HK\$5,632,000 and HK\$5,927,120, respectively, (equivalent to RMB5,000,000) which was secured by:
- (a) pledge of a building (Note 14) and a land use rights (Note 15) owned by a subsidiary, Mei Li Hua Children Garment Company Limited.

The secured revolving bank loan as at 31 March 2017 and 31 August 2017 bore interest at 1.1375% per annum over Loan Prime Rate and the limit for the drawdown of the revolving loan is HK\$5,632,000 and HK\$5,927,120, respectively, (equivalent to RMB5,000,000).

7. As at 31 March 2016, a loan under SME Financing Guarantee Scheme of HK\$1,722,000 which was secured by:
- (a) unlimited personal guarantee provided by Ms. Fung;
 - (b) unlimited corporate guarantee provided by subsidiaries, Mantex Supplies, Babies Trendyland and Martex International;
 - (c) a guarantee of HK\$4,800,000 executed by the Hong Kong Mortgage Corporation Limited under the SME Financing Guarantee Scheme; and
 - (d) pledge of a property owned by a related company Bestley Limited which is controlled by Ms. Fung.

The secured loan bore interest at 3% per annum over one-month HIBOR and is repayable in monthly installments with the final installment due in July 2017.

8. As at 31 March 2016, a mortgage loan of HK\$30,134,000 which was secured by:
- (a) unlimited personal guarantee provided by Ms. Fung;
 - (b) unlimited corporate guarantee provided by the related companies, Mansion Global Enterprise Limited and Mansion Corporate Limited;

- (c) pledge of a property at No. 23 Mei Wo Circuit, Shatin, New Territories (the remaining portion of Sha Tin Town Lot No. 254) from a related company, Wiseley (Hong Kong) Limited which is controlled by Ms. Fung; and
- (d) limited cross corporate guarantee of HK\$120,000,000 provided by subsidiaries and a related company, Mantex Supplies, Babies Trendyland and Friendley Limited.

The secured loan bore interest at 0.7% per annum over one-month HIBOR and is repayable in monthly installments with the final installment due in 2035.

- 9. As at 31 March 2016, a tax bank loan of HK\$416,000 which bore interest at 2% per annum below Prime Rate and is repayable in monthly installments with the final installment due in 2 March 2017. The loan was secured by the securities as stated in note 4(a) to 4(l) with the guarantee amount limited to HK\$95,000,000.
- 10. As at 31 March 2016, a tax bank loan of HK\$1,877,000 which bore interest at 2% per annum below Prime Rate and is repayable in monthly installments with the final installment due in 8 March 2017. The loan was secured by the securities as stated in note 12(a) to 12(g) with the guarantee amount limited to HK\$10,000,000.
- 11. As at 31 August 2017, a tax bank loan of HK\$2,367,000 which bore interest at 2% per annum below Prime Rate and is repayable in monthly installments with the final installment due in 16 June 2018. The loan was secured by the securities as stated in note 5(a) to 5(l) with the guarantee amount limited to HK\$95,000,000.
- 12. As at 31 August 2017, a tax bank loan of HK\$651,000 which was secured by:
 - (a) pledge of a property at Flat B and C, 8/F, Tower 16, Providence Peak, Tai Po, New Territories from a related company, Bestley Limited for the account of the subsidiaries, Martex International and Babies Trendyland;
 - (b) pledge of a property at No. 23 Mei Wo Circuit, Shatin, New Territories from a related company, Wiseley (Hong Kong) Limited for the account of the subsidiaries, Mantex Supplies, Babies Trendyland and Martex International;
 - (c) guarantee and indemnity of HK\$10,000,000 (together with interest and other charges) provided by Mantex Supplies for the account of Babies Trendyland;
 - (d) guarantee and indemnity of HK\$10,000,000 (together with interest and other charges) provided by Ms. Fung for the account of Babies Trendyland;
 - (e) guarantee and indemnity of HK\$10,000,000 (together with interest and other charges) provided by a subsidiary, Martex International for the account of Babies Trendyland;
 - (f) guarantee and indemnity of HK\$10,000,000 (together with interest and other charges) provided by a related company, Bestley Limited for the account of Babies Trendyland; and
 - (g) guarantee and indemnity of HK\$10,000,000 (together with interest and other charges) provided by a related company, Wiseley (Hong Kong) Limited for the account of Babies Trendyland.

The secured tax bank loan which bore interest at 2% per annum below Prime Rate and is repayable in monthly installments with the final installment due in 16 June 2018.

- 13. As at 31 August 2017, a bank overdraft of HK\$928,000 which bore interest at 1% per annum below Prime Rate and was secured by the securities as stated in note 5(a) to 5(l) with the guarantee amount limited to HK\$8,000,000.

14. As at 31 August 2017, a bank overdraft of HK\$1,984,000 which bore interest at 1% per annum below Prime Rate and was secured by the securities as stated in note 12(a) to 12(g) with the guarantee amount limited to HK\$2,000,000.

26. Finance lease liabilities

(a) Total minimum lease payments are as follows:

	As at 31 March		As at
	2016	2017	31 August
	HK\$'000	HK\$'000	2017
			HK\$'000
Due within one year	638	223	95
Due in the second to fifth years	<u>398</u>	<u>166</u>	<u>127</u>
	1,036	389	222
Future finance charges on finance leases	<u>(30)</u>	<u>(16)</u>	<u>(12)</u>
Present value of finance lease liabilities	<u><u>1,006</u></u>	<u><u>373</u></u>	<u><u>210</u></u>

(b) The present value of finance lease liabilities are as follows:

	As at 31 March		As at
	2016	2017	31 August
	HK\$'000	HK\$'000	2017
			HK\$'000
Due within one year, included under current liabilities	625	213	87
Due in the second to fifth years, included under non-current liabilities	<u>381</u>	<u>160</u>	<u>123</u>
	<u><u>1,006</u></u>	<u><u>373</u></u>	<u><u>210</u></u>

The Group entered into certain finance leases for its motor vehicle and machines with remaining lease terms of 1 to 3 years. Interest rates under the leases are fixed at rates 4.73% per annum. These leases do not have options to renew or any contingent rental provisions. Under the lease terms, the Group has the option to purchase the leased assets at a price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the leases.

Finance lease liabilities are secured by the underlying assets where the lessor has the rights to revert in event of default. The carrying amounts of the finance lease liabilities are denominated in HK\$ and approximate to their fair values.

27. Share capital

The share capital as at 1 April 2015, 31 March 2016 and 2017 represented the share capital of Mansion Success.

The share capital as at 31 August 2017 represented the share capital of Mansion International Holdings Limited.

28. Reserves

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity on page I-8 of this report.

(a) Exchange Reserve

Exchange reserve represents gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

(b) Capital reserve

Capital reserve represents the capital contribution from the previous shareholders to a subsidiary of the Group.

(c) Statutory reserve

The statutory reserve represents the amount transferred from profit after taxation of the subsidiaries established in the PRC in accordance with the relevant PRC laws until the PRC statutory reserve reaches 50% of the registered capital of the respective subsidiaries. The statutory reserve can be applied either in setting off the accumulated losses or increasing capital.

(d) Other reserve

Other reserve of the Group represented the difference between the nominal value of the Company's shares issued, pursuant to the reorganisation and the nominal value of the share capital of a subsidiary.

Company	Other reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2017	—	—	—
Arising on reorganisation	8	—	8
Loss for the period and total comprehensive income for the period	—	—	—
At 31 August 2017	<u>8</u>	<u>—</u>	<u>8</u>

29. Leases*Operating leases - lessee*

Future minimum rental payable under non-cancellable operating lease of the Group in respect of buildings at the end of each reporting period are as follows:

	As at 31 March		As at
	2016	2017	31 August
	HK\$'000	HK\$'000	2017
			HK\$'000
Within one year	18,531	15,933	13,262
Within two to five years	26,732	12,230	9,314
Over five years	—	—	—
	<u>45,263</u>	<u>28,163</u>	<u>22,576</u>

The Group leases properties under operating leases. Leases are negotiated for terms ranging from 1 year to 5 years for the years ended 31 March 2016 and 31 March 2017 and for the five months period ended 31 August 2017.

Contingent rents, generally determined based on a percentage of revenue of the related shops, of appropriately HK\$20,718,000, HK\$21,107,000 and HK\$8,470,000 for the Group have been recognised as an expense in the consolidated statements of profit or loss and other comprehensive income during the years ended 31 March 2016, 31 March 2017 and for the five months period ended 31 August 2017 respectively.

30. Financial risk management

The main risks arising from the Group's financial instruments include interest rate risk, credit risk and liquidity risk. The Group has no significant exposures to other financial risks except as disclosed below. The directors of the Company review and agree policies for managing each of these risks and they are summarised below.

(i) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk mainly arises on bank borrowings (note 25) which bore floating interests. The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

Sensitivity analysis

If the interest rates had been increased by 100 basis points at the beginning of the years/ periods and all other variables were held constant, the Group's profit after tax and retained earnings would decrease by approximately HK\$532,000 and HK\$361,000 for the years ended 31 March 2016 and 2017 respectively, and the Group's loss after tax and retained earnings would increase/decrease by approximately HK\$564,000 for the five months period ended 31 August 2017. The assumed changes have no impact on the Group's and other components of equity.

The same % decrease in the interest rate would have the same magnitude on the Group's profit/(loss) after income tax and retained earnings as shown above but of opposite effect, on the basis that all variables remain constant.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate over the next twelve month period.

The sensitivity analysis included in the financial statements for the years ended 31 March 2016 and 31 March 2017 and for the five months period ended 31 August 2017 have been prepared on the same basis.

(ii) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Trade receivables are due immediately from the date of payment request forms. Normally, the Group does not obtain collateral from customers.

The Company has no significant exposure to credit risk of other financial assets because the Company's assets are mainly relating to balances with related companies and director.

(iii) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The Group aims to finance its operations with its own capital and earnings and did not have any significant borrowings or credit facilities utilised during the years/periods. The Group maintains its own treasury function to monitor the current and expected liquidity requirements and aims to maintain flexibility by keeping sufficient cash and cash equivalents generated from operations.

APPENDIX I
ACCOUNTANTS' REPORT

The following tables show the remaining contractual maturities at the end of reporting period of the Group's financial liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay.

	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Carrying amount	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 March 2016					
Non-derivatives:					
Trade and bills payable	44,583	44,583	44,583	—	—
Accruals and other payables	16,594	16,594	16,594	—	—
Amount due to a related company	1,790	1,790	1,790	—	—
Loan from a shareholder	5,000	5,000	5,000	—	—
Bank borrowings	53,189	56,341	56,341	—	—
Finance lease liabilities	1,006	1,036	638	326	72
	<u>122,162</u>	<u>125,344</u>	<u>124,946</u>	<u>326</u>	<u>72</u>

	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
Carrying amount	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 March 2017					
Non-derivatives:					
Trade and bills payable	35,553	35,553	35,553	—	—
Accruals and other payables	15,412	15,412	15,412	—	—
Loan from a shareholder	10,000	10,000	10,000	—	—
Amount due to a related company	1,548	1,548	1,548	—	—
Bank borrowings	36,095	41,877	41,877	—	—
Finance lease liabilities	373	389	223	166	—
	<u>98,981</u>	<u>104,779</u>	<u>104,613</u>	<u>166</u>	<u>—</u>

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 August 2017						
Non-derivatives:						
Trade and bills payable	35,748	35,748	35,748	—	—	—
Accruals and other payables	14,938	14,938	14,938	—	—	—
Loan from a shareholder	10,000	10,000	10,000	—	—	—
Amount due to a related company	—	—	—	—	—	—
Bank borrowings	56,374	57,269	57,269	—	—	—
Finance lease liabilities	210	222	95	127	—	—
	<u>117,270</u>	<u>118,177</u>	<u>118,050</u>	<u>127</u>	<u>—</u>	<u>—</u>

(iv) Foreign currency risk

The Group mainly operates in HK and the PRC and most of its business transactions, assets and liabilities are principally denominated in HK\$, USD and RMB. Most of its sales proceeds were received in USD and HK\$, and most of the purchases are conducted in HK\$, USD and RMB. Most of its production costs, such as wages are incurred in RMB. HK\$ is pegged with USD, thus foreign exchange exposure of USD is considered as minimal.

As at 31 March 2016 and 2017, if RMB had strengthened/ weakened by 5% against HK\$ with all other variable held constant, profit for the years ended 31 March 2016 and 2017 would have been approximately HK\$1,131,000 and HK\$892,000 respectively, lower / higher, mainly as a result of foreign exchange losses / gains on translation of RMB denominated cash and cash equivalents, deposits, prepayments and other receivables, trade payables and accruals and other payables.

As at 31 August 2017, if RMB had strengthened/ weakened by 5% against HK\$ with all other variable held constant, loss for the five months period ended 31 August 2017 would have been approximately HK\$787,000, higher / lower, mainly as a result of foreign exchange gains / losses on translation of RMB denominated cash and cash equivalents, deposits, prepayments and other receivables, trade payables and accruals and other payables.

(v) Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of each reporting period are as follows:

	As at 31 March		As at
	2016	2017	31 August
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets			
Loans and receivables:			
Trade receivables	16,344	24,266	40,391
Other receivables and deposit	8,837	7,554	8,740
Amounts due from related companies	6,333	6,772	—
Amount due from a director	32,732	9,908	16,349
Cash and cash equivalents	<u>12,176</u>	<u>26,714</u>	<u>19,128</u>
	<u>76,422</u>	<u>75,214</u>	<u>84,608</u>
Financial liabilities			
Financial liabilities at amortised costs:			
Trade and bills payable	44,583	35,553	35,748
Accruals and other payables	16,594	15,412	14,938
Amount due to a related company	1,790	1,548	—
Loan from a shareholder	5,000	10,000	10,000
Bank borrowings	53,189	36,095	56,374
Finance lease liabilities	<u>1,006</u>	<u>373</u>	<u>210</u>
	<u>122,162</u>	<u>98,981</u>	<u>117,270</u>

(vi) Capital management

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The capital structure of the Group consists of debts, which includes amount due to a related company, loan from a shareholder, bank borrowings, finance lease liabilities and equity attributable to owners of the parent. The Group's management regularly reviews the capital structure. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The gearing ratios of the Group at the end of each of the Relevant Periods are as follows:

	As at 31 March		As at
	2016	2017	31 August
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due to a related company	1,790	1,548	—
Loan from a shareholder	5,000	10,000	10,000
Bank borrowings	53,189	36,095	56,374
Finance lease liabilities	<u>1,006</u>	<u>373</u>	<u>210</u>
	60,985	48,016	66,584
Less: Cash and cash equivalents	<u>(12,176)</u>	<u>(26,714)</u>	<u>(19,128)</u>
Net debt	<u>48,809</u>	<u>21,302</u>	<u>47,456</u>
Equity attributable to owners of the parent	<u>36,408</u>	<u>44,296</u>	<u>40,736</u>
Debt to equity ratio	<u>134.1%</u>	<u>48.1%</u>	<u>116.5%</u>

31. Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows from financing activities.

	1 April 2015 <i>HK\$'000</i>	Financing cash flows <i>HK\$'000</i>	Non-cash transactions <i>HK\$'000</i>	31 March 2016 <i>HK\$'000</i>
Amount due from a director	32,680	(52)	—	32,732
Loan from a shareholder	—	5,000	—	(5,000)
Amount due to a related company	—	1,790	—	(1,790)
Accrued interest	—	(2,048)	2,048	—
Bank borrowings	(91,965)	(38,561)	(215)	(53,189)
Finance lease liabilities	(1,692)	(694)	8	(1,006)
	<u>(60,977)</u>	<u>(34,565)</u>	<u>1,841</u>	<u>(28,253)</u>
	1 April 2016 <i>HK\$'000</i>	Financing cash flows <i>HK\$'000</i>	Non-cash transactions <i>HK\$'000</i>	31 March 2017 <i>HK\$'000</i>
Amount due from a director	32,732	22,824	—	9,908
Loan from a shareholder	(5,000)	5,000	—	(10,000)
Amount due to a related company	(1,790)	(242)	—	(1,548)
Accrued interest	—	(2,209)	2,209	—
Bank borrowings	(53,189)	(16,961)	(133)	(36,095)
Finance lease liabilities	(1,006)	(640)	7	(373)
	<u>(28,253)</u>	<u>7,772</u>	<u>2,083</u>	<u>(38,108)</u>
	1 April 2017 <i>HK\$'000</i>	Financing cash flows <i>HK\$'000</i>	Non-cash transactions <i>HK\$'000</i>	31 August 2017 <i>HK\$'000</i>
Amount due from a director	9,908	(6,441)	—	16,349
Loan from a shareholder	(10,000)	—	—	(10,000)
Amount due to a related company	(1,548)	(1,548)	—	—
Accrued interest	—	(1,073)	1,073	—
Bank borrowings	(36,095)	19,984	295	(56,374)
Finance lease liabilities	(373)	(165)	2	(210)
	<u>(38,108)</u>	<u>10,757</u>	<u>1,370</u>	<u>(50,235)</u>

32. Related party transactions

Save as disclosed elsewhere in this report, the Group had the following material related party transactions during the Relevant Periods:

(i) Related party transactions

	Notes	Year ended 31 March		Five months period ended 31 August	
		2016	2017	2016	2017
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Interest of shareholder loan		184	298	84	167
Rent paid to a related company	(a)	<u>1,920</u>	<u>1,920</u>	<u>800</u>	<u>800</u>

(a) The above transactions with a related company, Wiseley (Hong Kong) Limited were carried out in the ordinary course of business and conducted of prices mutually agreed between the relevant parties. Wiseley (Hong Kong) Limited is held as to 50% by Ms. Fung and Ms. Luk, respectively.

(b) As at 31 March 2016, 31 March 2017 and 31 August 2017, Ms. Fung had provided unlimited personal guarantee to banks to secure the banking facilities granted to the Group.

As represented by the directors of the Company, the personal guarantee will be released and replaced by a corporate guarantee provided by the Company upon listing of the Company's share on the GEM of the Stock Exchange.

(ii) Compensation of key management personnel

The emoluments of directors who are also identified as members of key management of the Group during the Relevant Periods are set out in note 9.

33. Contingent liabilities

At the end of each reporting period, the Group did not have any significant contingent liabilities.

III. EVENT AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this report, the following significant event took place subsequent to 31 August 2017:

- (i) On 27 December 2017, the Company declared a special dividend amounting to HK\$16,000,000 to the shareholders. Such dividend will be reflected in the Group's financial statements for the year ending 31 March 2018.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 August 2017 and up to the date of this report. Except for Section III as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 August 2017.

APPENDIX II**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The information set forth in this appendix does not form part of the Accountants' Report from BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein 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.

The unaudited pro forma financial information prepared in accordance with paragraph 7.31 of the GEM Listing Rules is set forth below to provide the prospective investors with further information on how the Share Offer might have affected the net tangible assets of the Group attributable to the owners of the Company after the completion of the Share Offer.

(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted consolidated net tangible assets of the Group, prepared on the basis of the notes set out below, for the purpose of illustrating the effect of the Share Offer on the consolidated net tangible assets of the Group attributable to the owners of the Company as if the Share Offer had taken place on 31 August 2017. This unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the consolidated financial position of the Group attributable to the owners of the Company had the Share Offer been completed on 31 August 2017 or at any future dates.

	Audited consolidated net tangible assets attributable to the owners of the Company as at 31 August 2017	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>
Based on the Share Offer				
Price of HK\$0.62 per Share	<u>40,736</u>	<u>46,452</u>	<u>87,188</u>	<u>0.22</u>
Based on the Share Offer				
Price of HK\$0.70 per Share	<u>40,736</u>	<u>54,052</u>	<u>94,788</u>	<u>0.24</u>
Based on the Share Offer				
Price of HK\$0.78 per Share	<u>40,736</u>	<u>61,652</u>	<u>102,388</u>	<u>0.26</u>

Notes:

- (1) The audited consolidated net tangible assets attributable to the owners of the Company as at 31 August 2017 is extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Share Offer are based on 100,000,000 Offer Shares at the Offer Price of HK\$0.62 per Offer Share, HK\$0.70 per Offer Share and HK\$0.78 per Offer Share, after deduction of the underwriting fees and remaining related expenses payable by the Company in connection with the Share Offer.
- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share is calculated based on 400,000,000 Shares in issue immediately following the completion of the Share Offer and the Capitalization Issue. It does not take into account any Shares which may fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option.
- (4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 31 August 2017.
- (5) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 August 2017 does not take into account the special dividend of HK\$16,000,000 which was declared on 27 December 2017. Had the special dividend of HK\$16,000,000 which was declared on 27 December 2017 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 August 2017 and the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company would have been HK\$71,188,000, HK\$78,788,000 and HK\$86,388,000 respectively and the unaudited pro forma adjusted consolidated net tangible asset per Share would have been HK\$0.18, HK\$0.20 and HK\$0.22.

**(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the reporting accountants of the Company, BDO Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information.



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To the directors of Mansion International Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Mansion International 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 unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 31 August 2017 and related notes as set out in Section A of Appendix II of the Company’s prospectus dated 12 January 2018 (the “Prospectus”) in connection with the proposed initial public offering of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Proposed Share Offer”) (the “Unaudited Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Section A of Appendix II of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Proposed Share Offer on the Group’s consolidated net tangible assets attributable to the owners of the Company as at 31 August 2017 as if the Proposed Share Offer had taken place on the same date. As part of this process, information about the Company’s consolidated financial position has been extracted by the Directors from the Group’s financial information for the five months ended 31 August 2017, on which an accountants’ report set out in Appendix I of the Prospectus has been published.

Directors’ Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 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 Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (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 behavior.

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 Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to 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 Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the 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 Proposed Share Offer at 31 August 2017 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 unaudited 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 by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

BDO Limited

Certified Public Accountants

Hong Kong

12 January 2018

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW
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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 company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 17 May 2017 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). Our Company’s constitutional documents consist of its Memorandum of Association (the “**Memorandum**”) and its Articles of Association (the “**Articles**”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that 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.
- (b) Our Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 28 December 2017 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of our Company consists of ordinary shares.

(ii) 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 the shares or any class of shares may (unless otherwise provided for by the terms of issue 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. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW
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by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

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.

(iii) Alteration of capital

Our Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed 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 transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

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The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to our Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require 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 registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of our Company.

(v) Power of our Company to purchase its own shares

Our Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where our Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by our Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

(vi) Power of any subsidiary of our Company to own shares in our Company

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls 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). A call may be made payable either in one lump sum or by installments. 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 twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment

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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 monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, 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, notwithstanding, 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 the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) *Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office 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 will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW
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A Director may be removed by an ordinary resolution of our Company before the expiration of his period 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 members of our Company may by ordinary resolution appoint another in his place. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to our Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

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 delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time 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 must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of our Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may determine.

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Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange 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 are 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 is 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 with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of our Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries. The Directors may, however, 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.

(iv) 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 assets and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, 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.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in

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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 may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making 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 ex-Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and ex-employees of our Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

(vii) Loans and provision of security for loans to Directors

Our Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if our Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with our Company or any of its subsidiaries

A Director may hold any other office or place of profit with our Company (except that of the auditor of 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 therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or 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, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW
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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 thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, 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 or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of our Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his close associate(s) has 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 contract or arrangement concerning an offer of shares or 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 contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other

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arrangement which relates both to Directors, his close associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. 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 an additional or casting vote.

(d) Alterations to constitutional documents and our Company's name

The Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

(e) Meetings of members

(i) *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, in the case of such members as 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 in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean 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 corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) *Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting 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 fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

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At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of our Company it may authorise such person or persons 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 pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where our Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

Our Company must hold an annual general meeting of our Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is 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 and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of our Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to, among others, the auditors for the time being of our Company.

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Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of our Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by our Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of our Company.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

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.

(vi) *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

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Company and is 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 is 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. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office 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 accounting record or book or document of our Company except as conferred by law or authorised by the board or our Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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 of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, our Company may send to such persons summarised financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarised financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of our Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

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(g) 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.

The Articles provide dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the board may further resolve either (a) 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 shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders 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.

Our Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their 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 moneys 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.

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All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of 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 or bonuses unclaimed for six years after having been declared may be forfeited by the board and 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.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.5 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) 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:

- (i) if our Company is wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if our Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority 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

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whether the assets shall consist of property of one kind or shall consist of properties of 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 divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is 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 a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

Our Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, our Company's operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the 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 arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to

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members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) 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 shareholder and the Companies Law expressly provides that 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. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any

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purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

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 to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having 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 into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder 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 or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has

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omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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 of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law of the Cayman Islands, our Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and

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- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from 22 June 2017.

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 executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Our Shareholders have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. 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 members, 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 of the Cayman Islands.

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(o) Register of Directors and Officers

Our Company is required to maintain at its registered office a register of 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 sixty (60) days of any change in such directors or officers.

(p) Register of Beneficial Ownership

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The register of beneficial ownership is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the Company is listed on the Stock Exchange, it is not required to maintain a register of beneficial ownership.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

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For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the Court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must 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.

As soon as the affairs of the 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 how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder 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 shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

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4. GENERAL

Conyers Dill & Pearman, our Company's special legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section 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 COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 17 May 2017. Our Company has established a principal place of business in Hong Kong at 7th Floor, 822 Lai Chi Kok Road, Kowloon, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 4 July 2017. Ms. Cheung Yuet Mei Claudia and Ms. Chu Wai Yin Cindy have been appointed as the authorised representatives of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong. The address for service of process and notices in Hong Kong is 7th Floor, 822 Lai Chi Kok Road, Kowloon, Hong Kong.

As our Company was incorporated in the Cayman Islands, it is subject to the Companies Law and its constitution which comprises the Memorandum and the Articles. A summary of various provisions of its constitution and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in share capital of our Company

- (a) As at the date of incorporation, our Company had an authorised share capital of HK\$380,000.00 divided into 38,000,000 shares of HK\$0.01 each. On the same date, one fully-paid Share was allotted and issued to the subscriber and was subsequently transferred to Joyful Cat.
- (b) Pursuant to the written resolutions of the sole Shareholder passed on 28 December 2017, the authorised share capital of our Company was increased from HK\$380,000 to HK\$20,000,000 by the creation of an additional 1,962,000,000 Shares.
- (c) Immediately following completion of the Reorganisation but without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which 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 400,000,000 Shares have been allotted and issued, fully paid or credited as fully paid, and 1,600,000,000 Shares will remain unissued.
- (d) Other than pursuant to the Share Offer, any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the general mandate to issue Shares referred to in the paragraph headed “Written resolutions of the existing sole Shareholder” in this appendix, our Company does not have any present intention to issue any part of the authorised but unissued share capital of our Company and, without prior approval of the Shareholders in a general meeting, no issue of Shares will be made which would effectively alter the control of our Company.
- (e) Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since the date of its incorporation.

3. Written resolutions of the existing sole Shareholder

On 28 December 2017, resolutions in writing were passed by the existing sole Shareholder pursuant to which, among other things:

- (a) conditional upon the listing of the Shares on GEM, our Company approved and adopted the Memorandum and the Articles, the terms of which are summarised in Appendix III to this prospectus, with effect from the Listing Date;
- (b) the authorised share capital of our Company be increased from HK\$380,000.00 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 an additional 1,962,000,000 Shares, ranking *pari passu* with the existing Shares in all respects;
- (c) conditional on (i) the Listing Department granting the approval for the listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option); (ii) our Company having submitted to the HKSCC all requisite documents to enable the Shares to be admitted to trade on the Stock Exchange; (iii) the execution and delivery of the Placing Underwriting Agreement on or around the Price Determination Date; and (iv) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the date falling 30 days after the date of this prospectus:
 - (i) the Share Offer (including the grant of the Offer Size Adjustment Option) was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer;
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” in this appendix, were approved and adopted and our Directors were authorised, subject to the terms and conditions of the Share Option Scheme, to 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 options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;
 - (iii) the grant of the Offer Size Adjustment Option was approved and our Directors were authorised to allot and issue up to 15,000,000 additional Shares pursuant to the exercise of the Offer Size Adjustment Option, and
 - (iv) conditional on the share premium account of our Company being credited as a result of the issue of the Offer Shares pursuant to the Share Offer, our Directors were authorised to capitalise the amount of HK\$2,999,998.99 standing to the credit of the

share premium account of the Company by applying such sum towards the paying up in full at par 299,999,899 Shares, such Shares to be allotted and issued to our shareholders of the Company recorded on the register of members of the Company as of 12 January 2018 on a pro rata basis;

in each case to rank *pari passu* with the then existing Shares in all respects;

- (d) conditional upon the fulfilment of the conditions stated in the section headed “Structure and conditions of the Share Offer — Conditions of the Share Offer” in this prospectus, a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of a rights issue or an issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other share option scheme of our Company or any Shares allotted and issued in lieu of the whole or part of a dividend on Shares or similar arrangement in accordance with the Articles or pursuant to a specific authority granted by the Shareholders in general meeting or pursuant to the Share Offer, Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements and options which might require the exercise of such power, not exceeding 20% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option, such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
 - (iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting; and
- (e) conditional upon the fulfilment of the conditions stated in the section headed “Structure and conditions of the Share Offer — Conditions of the Share Offer” in this prospectus, a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on GEM 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, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option, such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company;

- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
- (iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting; and
- (f) the general unconditional mandate mentioned in sub-paragraph (e) above was extended by the addition to the number of Shares which may be allotted or agreed to be allotted 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 referred to in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

4. Reorganisation

In preparing for the Listing, the companies comprising our Group underwent the Reorganisation to rationalise the corporate structure of our Group, details of which are set out in the section headed “History, development and Reorganisation — Reorganisation” in this prospectus. Following the Reorganisation, our Company became the holding company of our Group.

Diagrams showing our Group structure after the Reorganisation and immediately upon completion of the Share Offer and the Capitalisation Issue, but without taking into account of Shares that may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option, are set out in the section headed “History, development and Reorganisation — Reorganisation” in this prospectus.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the paragraph headed “Reorganisation” in this appendix and in the section headed “History, development and Reorganisation” in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Repurchase by our Company of our own securities

This section contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase of Shares by our Company.

(a) Provisions of the GEM Listing Rules

The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase their securities on GEM subject to certain restrictions, a summary of which is set out below:

(i) Shareholders' approval

The GEM Listing Rules provide that all proposed repurchases of shares, which must be fully paid up, by a company with a primary listing on GEM 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 passed by the sole Shareholder on 28 December 2017, a general unconditional mandate (the “**Repurchase Mandate**”) was granted to our Directors authorising them to exercise all powers of our Company to repurchase on GEM 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, such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option and the Repurchase Mandate shall remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held or the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of the Shareholders in a general meeting.

(ii) Source of Funds

Any repurchase by our Company must be funded out of funds legally available for the purpose in accordance with the Articles, the applicable laws of the Cayman Islands and the GEM Listing Rules. Our Company may not repurchase its own Shares on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any repurchases by our Company may be made out of profits, share premium or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time the Shares are repurchased. Subject to the Companies Law, a repurchase of Shares may also be made out of capital.

(iii) Connected parties

The GEM Listing Rules prohibit our Company from knowingly repurchasing the Shares on GEM from a “core connected person” (as defined in the GEM Listing Rules), which includes a Director, chief executive or substantial shareholder of our Company or any of its subsidiaries or a close associate (as defined in the GEM Listing Rules) of any of them and a core connected person shall not knowingly sell Shares to our Company on GEM.

(b) Exercise of the Repurchase Mandate

On the basis of 400,000,000 Shares in issue immediately after completion of the Share Offer (without taking into account any Shares that may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option) and the Capitalisation Issue, our Directors would be authorised under the Repurchase Mandate to repurchase up to 10% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid up.

(c) Reasons for repurchases

Our Directors believe that it is in the best interest of our Company and its Shareholders for our Directors to have a general authority from 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 our Company's NAV and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(d) Funding of repurchases

In repurchasing the Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the GEM Listing Rules and the applicable laws and regulations of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(e) General

None of our Directors or to the best of their knowledge, having made all reasonable enquiries, any of their close associates (as defined in the GEM Listing Rules), has any present intention to sell any Shares to our Company if the Repurchase Mandate is exercised.

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 and regulations from time to time in force in the Cayman Islands.

If, as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. In certain circumstances, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code) depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code as a result of any such increase.

Our Directors are not aware of any consequences which may arise under the Takeovers Code as a consequence of any repurchase of Shares if made immediately after the Listing pursuant to the Repurchase Mandate. At present, so far as is known to our Directors, no Shareholder may become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code in the event that our Directors exercise the power in full to repurchase the Shares 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). No core connected person (as defined in the GEM Listing Rules) has notified our Company that he/she has a present intention to sell 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 Group within the two years preceding the date of this prospectus and are or may be material in relation to the business of our Company taken as a whole:

- (a) a trademark assignment agreement dated 21 April 2017 entered into between Friendly Limited as assignor and Mi'Des Associated as assignee, pursuant to which Friendly Limited assigned trademarks nos. 301805139, 301805148 and 301805157 registered in Hong Kong to Mi'Des Associated at a nominal consideration of HK\$1;
- (b) an agreement for sale and purchase dated 23 June 2017 entered into between Ms. Fung and our Company pursuant to which our Company acquired from Ms. Fung the entire issued share capital of Mansion Success at a total consideration of HK\$1;
- (c) the Deed of Indemnity;
- (d) the Deed of Non-competition;
- (e) the deed of non-competition dated 11 January 2018 executed by Ms. Luk in favour of our Company (for itself and as trustee for its subsidiaries), regarding certain non-competition undertakings given by Ms. Luk to our Group; and
- (f) the Public Offer Underwriting Agreement.











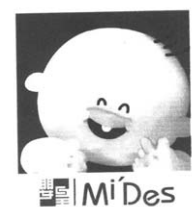
2. Intellectual property rights of our Group

(a) Trademarks

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


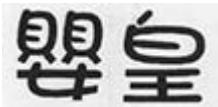
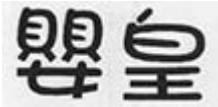

Trademark	Class(es)	Trademark Number	Registration Date	Place of Registration	Name of Owner
	12, 16, 20, 24, 25, 28	301297224	4 March 2009	Hong Kong	Mi'Des Associated
^A 	12, 16, 20, 24, 25, 28	301297233	4 March 2009	Hong Kong	Mi'Des Associated
^B 					
	12, 16, 20, 24, 28	302204810AC	28 March 2012	Hong Kong	Mi'Des Associated
	12, 16, 20, 24, 28	302204810AE	28 March 2012	Hong Kong	Mi'Des Associated
^A 	12, 16, 20, 24, 25, 28	302305430	5 July 2012	Hong Kong	Mi'Des Associated
^B 					

Trademark	Class(es)	Trademark Number	Registration Date	Place of Registration	Name of Owner
A	12, 16, 20, 24, 25, 28	303256731	5 January 2015	Hong Kong	Mi'Des Associated
B					
MAMA'S DEAR	16, 28, 35	301805139	6 January 2011	Hong Kong	Mi'Des Associated
	16, 28, 35	301805148	6 January 2011	Hong Kong	Mi'Des Associated
	16, 28, 35	301805157	6 January 2011	Hong Kong	Mi'Des Associated
A B	24	304136571	11 May 2017	Hong Kong	Mi'Des Associated
C D					
mídes	12	01791392	16 September 2016	Taiwan	Mi'Des Associated
mídes	16	01791505	16 September 2016	Taiwan	Mi'Des Associated
mídes	20	01791689	16 September 2016	Taiwan	Mi'Des Associated
mídes	24	01791841	16 September 2016	Taiwan	Mi'Des Associated

Trademark	Class(es)	Trademark Number	Registration Date	Place of Registration	Name of Owner
	25	01791914	16 September 2016	Taiwan	Mi'Des Associated
	28	01792044	16 September 2016	Taiwan	Mi'Des Associated
	25	7462947	21 January 2011	PRC	Mi'Des Associated
	24	7463304	14 June 2012	PRC	Mi'Des Associated
	35	17132931	7 August 2016	PRC	Mi'Des Associated
	24	17132577	21 August 2016	PRC	Mi'Des Associated
	25	17132776	21 August 2016	PRC	Mi'Des Associated
	25	4645418	7 April 2009	PRC	Mi'Des Associated
	24	7463317	21 June 2012	PRC	Mi'Des Associated
	25	7462965	14 October 2012	PRC	Mi'Des Associated
	24	4564453	21 March 2009	PRC	Mi'Des Associated

APPENDIX IV

STATUTORY AND GENERAL INFORMATION

Trademark	Class(es)	Trademark Number	Registration Date	Place of Registration	Name of Owner
	25	4564452	21 June 2009	PRC	Mi'Des Associated
	24	7463325	21 October 2010	PRC	Mi'Des Associated
	25	7463237	21 November 2010	PRC	Mi'Des Associated
	35	9187486	14 March 2012	PRC	Mi'Des Associated

As at the Latest Practicable Date, our Group had applied for registration of the following trademarks:

Trademark	Class	Application Number	Place of Application	Name of Applicant
mídes	24	N/125738	Macao	Mi'Des Associated
mídes	25	N/125739	Macao	Mi'Des Associated

(b) Domain names

As at the Latest Practicable Date, our Group was the owner of the following domain names which are material to the business of our Group:

Registered Owner	Domain Name	Registration Date	Expiry Date
Mantex Supplies	mansionsuccess.com	9 March 2016	8 March 2021
Mantex Supplies	mantex.com	23 March 1997	24 March 2021
Babies Trendyland	mides.com.hk	21 December 2010	3 January 2020
Mantex Supplies	mi-des.com	15 September 2003	15 September 2022
Babies Trendyland	mides.hk	21 December 2010	3 January 2020
Martex International	martex.com.hk	4 March 2016	7 March 2022
Babies Trendyland	babiestrendyland.com	8 July 2004	8 July 2022
Our Company	mansionintl.com	30 June 2017	30 June 2020
Our Company	mansionintl.com.hk	30 June 2017	6 July 2020
Our Company	mansioninternational.com.hk	30 June 2017	6 July 2019

C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

1. Disclosure of interests

(a) *Interests of Directors and chief executive in shares, underlying shares and debentures of our Company and its associated corporations*

So far as our Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue, but taking no account of any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option or repurchased by our Company pursuant to the mandates as referred to in the paragraph headed “Further information about our Company” in this appendix, the interests and short positions of our Directors or chief executive of our Company in the shares, underlying shares and debentures of our Company or any of the associated corporations (within the meaning of Part XV of the SFO) which, once the Shares are listed on GEM, 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 any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or will be

required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or 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, will be as follows:

(i) *Long position in the Shares*

Name of Director	Capacity/Nature	Number of Shares held	Percentage of shareholding
Ms. Fung	Interest of a controlled corporation (<i>Note</i>)	300,000,000	75%

Note: These Shares are held by Joyful Cat, which is wholly owned by Ms. Fung. Ms. Fung is therefore deemed to be interested in all the Shares held by Joyful Cat by virtue of the SFO.

(ii) *Long position in the shares of associated corporation*

Name of Director	Name of associated corporation	Capacity/Nature	Number of Share held	Percentage of shareholding
Ms. Fung	Joyful Cat	Beneficial owner	1	100%

(b) *Interests of substantial and other Shareholders in the Shares and underlying Shares*

So far as is known to our Directors and taking no account of any Shares which may be taken up under the Share Offer or issued, the following persons (not being a Director or chief executive of our Company) will, immediately following the completion of the Share Offer and the Capitalisation Issue (but without taking into account of the allotment and issue of any Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option), have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the number of the total issued shares carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity/Nature	Number of Shares held	Percentage of shareholding
Joyful Cat	Beneficial owner	300,000,000	75%

2. Particulars of service contracts

Each of our executive Directors has entered into a service agreement with our Company. The service agreements are initially for a fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months written notice to the other party. Each of these executive Directors is entitled to the respective basic salary set out below. An executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of our Directors regarding the amount of the monthly salary and the discretionary bonus payable to him/her. The current basic annual salaries of our executive Directors are as follows:

	Basic annual salary
Name of executive Director	
Ms. Fung	HK\$4,200,000
Mr. Cheung	HK\$1,200,000
Ms. Ho	HK\$1,440,000
Name of non-executive Director	
Ms. Luk	HK\$ 300,000

Each of our non-executive Director and independent non-executive Directors has entered into an appointment letter with us. Their appointment shall be of an initial term of three years commencing from the Listing Date subject to termination in certain circumstances as stipulated in the appointment letter. The annual remuneration payable to each of our independent non-executive Directors is HK\$300,000.

Save as disclosed above, none of our Directors has or is proposed to have any service agreement with our Company or any of its subsidiaries (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

3. Remuneration of Directors

- (a) The aggregate remuneration paid by our Group to our Directors in respect of FY2016, FY2017 and SP2017 were approximately HK\$9.7 million, HK\$8.2 million and HK\$3.0 million, respectively.
- (b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for the year ending 31 March 2018 will be approximately HK\$7.2 million.

4. Agency fees or commissions received

Save as disclosed in the section headed “Underwriting — Underwriting commission and expenses” in this prospectus, none of our Directors or the experts named in the paragraph headed “Qualifications of experts” in this appendix had received any agency fee or commissions from our Group within the two years preceding the date of this prospectus.

5. Related party transactions

Details of the related party transactions are set out under Note 31 to the Accountants' Report set out in Appendix I to this prospectus.

6. Disclaimers

Save as disclosed in this prospectus:

- (a) taking no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option or repurchased by our Company pursuant to the mandates as referred to in the paragraph headed "Further information about our Company" in this appendix, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Share Offer and Capitalisation Issue, have an interest or short position in the Shares or underlying Shares which will fall to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the number of total issued shares carrying rights to vote in all circumstances at general meetings of any member of our Group;
- (b) none of our Directors or chief executive of our Company has any interest or short position in the shares, underlying shares or 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 under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or 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, in each case once the Shares are listed on GEM;
- (c) none of our Directors or the experts named in the paragraph headed "Qualifications of experts" in this appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue in 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;
- (d) none of our Directors or the experts named in the paragraph headed "Qualifications of experts" in this appendix 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 taken as a whole;
- (e) none of our Directors or the experts named in the paragraph headed "Qualifications of experts" in this appendix 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;

- (f) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the GEM Listing Rules) or Shareholders who are interested in more than 5% of the number of issued Shares has any interests in the five largest customers or the five largest suppliers of our Group;
- (g) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and
- (h) no remuneration or other benefits in kind have been paid by any member of our Group to any Director since the date of incorporation of our Company, nor are any remuneration or benefits in kind payable by any member of our Group to any Director in respect of the current financial year under any arrangement in force as at the Latest Practicable Date.

D. SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 28 December 2017. The following is a summary of the principal terms of the Share Option Scheme but does not form part of, nor was it intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme.

The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

(a) Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by the sole Shareholder on 28 December 2017:

(i) *Purposes of the scheme*

The purpose of the Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward the employees, our Directors and other selected participants for their contributions to our Group.

(ii) *Who may join*

Our Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants (“**Eligible Participants**”), to take up options to subscribe for Shares:

- (aa) any employee (who are in full-time employment, including any executive Director) of our Company, any of its subsidiaries (“**Subsidiaries**”) or any entity (“**Invested Entity**”) in which our Group holds an equity interest (“**SOS Eligible Employee**”);
- (bb) any non-executive directors (including independent non-executive Directors) of our Company, any Subsidiaries or any Invested Entity;

- (cc) any supplier of goods or services to any member of our Group or any Invested Entity;
- (dd) any customer of any member of our Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (ff) 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;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of our Group,

and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more Eligible Participants. For avoidance of doubt, the grant of any options 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 above class of participants to the grant of any option 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.

(iii) Maximum number of Shares

- (aa) The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of our Group shall not exceed 30% of the shares in issue from time to time.
- (bb) The total number of Shares which may be 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 Shares in issue on the day on which dealings in the Shares first commence on GEM (i.e. not exceeding 40,000,000 Shares) (the “**General Scheme Limit**”).
- (cc) Subject to (iii)(aa) above but without prejudice to (iii)(dd) below, our Company may issue a circular to its Shareholders and seek approval of its Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Group shall not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options

(including those 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 scheme of our Group will not be counted. The circular sent by our Company to its Shareholders shall contain, among other information, the information required under Rule 23.02(2)(d) of the GEM Listing Rules and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules.

- (dd) Subject to (iii)(aa) above and without prejudice to (iii)(cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (iii)(cc) above to Eligible Participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to its Shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 23.02(2)(d) of the GEM Listing Rules and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules.

(iv) Maximum entitlement of each participant

Subject to (v)(bb) below, the total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the shares in issue for the time being ("**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of our Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 23.03(9) of the GEM Listing Rules.

(v) Grant of options to connected persons

- (aa) Without prejudice to (v)(bb) below, any grant of options under the Share Option Scheme to a 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 the options); and
- (bb) Without prejudice to (v)(aa) above, where any grant of options 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 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:
- i. representing in aggregate over 0.1% of the Shares in issue; and

- ii. having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options must be approved by the Shareholders. Our Company must send a circular to the Shareholders. All proposed grantee, his associates and core connected persons of our Company must abstain from voting at such general meeting. Any change in the terms of options granted to a substantial Shareholder or an independent non-executive Director or any of their respective associates must be approved by the Shareholders.

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

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 each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) Performance targets

Unless our Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for Shares and consideration for the option

The subscription price per Share under the Share Option Scheme will be a price determined by our Directors, but shall not be less than the highest of (aa) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (bb) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer of grant; and (cc) the nominal value of a Share.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(ix) Ranking of Shares

- (aa) Shares 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 *pari passu* in all respects with the 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 therefore shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee on the register of members of our Company as the holder thereof.

- (bb) Unless the context otherwise requires, references to “Shares” in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or reduction of the share capital of our Company from time to time.

(x) Restrictions on the time of grant of options

Our Company may not grant or offer for grant of options after inside information has come to our knowledge until such information has been announced in accordance with the requirements of the GEM Listing Rules. In particular, our Company may not grant any option during the period commencing one month immediately preceding the earlier of:

- (aa) the date of Board meeting for approving our Company’s results for any year, half-year, quarter-year period or any other interim period (whether or not required under the GEM Listing Rules); and
- (bb) the deadline for our Company to announce our results for any year, half-year or quarter-year period under Rule 18.49, 18.78 or 18.79 of 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.

Our Directors may not grant or offer to grant options to any Eligible Participant who is subject to Rules 5.46 to 5.67 of the GEM Listing Rules during the periods or times in which such Eligible Participant is prohibited from dealing in the Shares pursuant to the said rules.

(xi) 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.

(xii) Rights on ceasing employment

If the grantee of an option is a SOS Eligible Employee and ceases to be a SOS Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or serious misconduct or other grounds referred to in subparagraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will 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, which will be taken to be the last day on which the grantee was at work with our Company, the relevant Subsidiary or the Invested Entity whether salary is paid in lieu of notice or not.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is a SOS Eligible Employee and ceases to be a SOS 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 which date shall be the last day on which the grantee was at work with our Company, the relevant Subsidiary or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is a SOS Eligible Employee and ceases to be a SOS Eligible Employee by reason that he has been guilty of persistent and serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements 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 or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be a SOS Eligible Employee.

(xv) Rights on breach of contract

If our Directors shall at their absolute discretion determine that (aa) the grantee of any option (other than a SOS Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and our Group or any Invested Entity on the other part; or (bb) that the 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 (cc) the grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever, then the option granted to the grantee under the Share Option Scheme shall lapse as a result of any event specified in sub-paragraph (aa), (bb) or (cc) above.

(xvi) 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 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, shareholders of our Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his 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 before the close of such offer (or any revised offer) or the record date for entitlements under such 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 or the relevant record date for entitlements under the scheme of arrangement, as the case may be.

(xvii) 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 the grantee 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 *pari passu* 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.

(xviii) Grantee being a company wholly owned by Eligible Participants

If the grantee is a company wholly owned by one or more Eligible Participants:

- (aa) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, *mutatis mutandis*, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant Eligible Participant; and
- (bb) 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.

(xix) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to our Company as fair and reasonable will be made to the number or nominal amount of Shares, the subject matter of the Share Option Scheme and the option so far as unexercised and/or the option price of the option concerned, provided that (i) any adjustments shall give a grantee the same proportion of the equity capital to which he was entitled prior to such adjustment; (ii) no alteration 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 may not be regarded

as a circumstance requiring adjustment; and (iv) any adjustment must be made in compliance with the GEM Listing Rule and such rules, codes and guidance notes of the Stock Exchange from time to time. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the GEM Listing Rules and such other applicable guidance and/or interpretation of the GEM Listing Rules from time to time issued by the Stock Exchange.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the consent of the relevant grantee and the approval of our Directors. When 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 the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant to sub-paragraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall 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 to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. 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.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the period referred to in paragraph (vi);
- (bb) the expiry of the periods or dates referred to in paragraphs (xii), (xiii), (xiv), (xv), (xvii) and (xviii); and
- (cc) the date on which our Directors shall exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) by the grantee in respect of that or any other options.

(xxiv) Others

- (aa) The Share Option Scheme is conditional on the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 23.03 of the GEM Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in general meeting.
- (cc) 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 must be approved by the Shareholders of our Company in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The amended terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of Chapter 23 of the GEM Listing Rules, the “Supplementary Guidance on Main Board Listing Rule 17.03(13)/GEM Listing Rule 23.03(13) and the Note Immediately After the Rule” set out in the letter from the Stock Exchange to all listed issuers dated 5 September 2005 and other relevant guidance of the Stock Exchange.
- (ee) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the Shareholders in general meeting.

(b) Present status of the Share Option Scheme

(i) Approval of the Stock Exchange required

The Share Option Scheme, which complies with Chapter 23 of the GEM Listing Rules, is conditional on the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(ii) Application for approval

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) Grant of option

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate,

expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

E. OTHER INFORMATION

1. Tax and other indemnities

The Controlling Shareholders (collectively, the “**Indemnifiers**”) have, under a deed of indemnity referred to in paragraph (d) of the paragraph headed “Summary of material contracts” in this appendix, given joint and several indemnities to our Company for itself and as trustee for its subsidiaries in connection with, among other things, (a) any taxation falling on any member of our Group (i) in respect of or by reference to any income, profits or gains earned, accrued or received or deemed or alleged to have been earned, accrued or received on or before the date on which the Share Offer becomes unconditional; or (ii) in respect of or by reference to any transaction, act, omission or event entered into or occurring or deemed to enter into or occur on or before the date on which the Share Offer becomes unconditional; and (b) any claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by any member of our Group as a result of or in connection with any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings instituted by or against any member of our Group in relation to events occurred on or before the date on which the Share Offer becomes unconditional. The Indemnifiers will, however, not be liable under the Deed of Indemnity to the extent that, among others:

- (a) specific provision, reserve or allowance has been made for such liability in the audited consolidated accounts of our Company for the Track Record Period;
- (b) the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the Share Offer becomes unconditional; or
- (c) the taxation liability arises in the ordinary course of business of any members of our Group after 31 August 2017 up to and including 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 is likely to fall on our Group.

2. Litigation

Our Directors confirmed that as at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is pending or threatened by or against any member of our Group.

3. Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Department for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

The Sole Sponsor will be paid by our Company HK\$4 million to act as sponsor to our Company in the Listing.

4. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately HK\$44,600 and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the GEM Listing Rules.

6. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this prospectus:

Name	Qualification
Alliance Capital Partners Limited	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
Shu Jin Law Firm	PRC legal advisers
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
BDO Limited	Certified Public Accountants
Frost & Sullivan	Industry consultant
Leong Hon Man Law Office	Legal adviser as to the law in Macao
Goody Burrett LLP	Legal adviser as to the law in England and Wales
Nixon Peabody LLP	Legal adviser as to the law in US

7. Consents of experts

Each of the above-named experts has given and has not withdrawn its written consents to the issue in this prospectus, with the inclusion of its letters and/or reports and/or opinions and/or summary thereof (as the case may be) and/or reference to its name included herein in the form and context in which they respectively appear.

8. 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.

9. Registration procedures

The principal share registrar and transfer office of our Company in the Cayman Islands will be maintained by Conyers Trust Company (Cayman) Limited and a Hong Kong branch share registrar and transfer office of our Company will be maintained by Tricor Investor Services Limited. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

10. No material adverse change

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Company or its subsidiaries since 31 August 2017 (being the date to which the latest audited financial statements of our Group were made up) and up to the Latest Practicable Date.

11. Taxation of holders of Shares**(a) Hong Kong**

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

No stamp duty is payable in the Cayman Islands on transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasised that none of our Company, our Directors or parties involved in the Share Offer accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

12. Miscellaneous

- (a) Save as disclosed in this prospectus:
- (i) Within the two years immediately preceding the date of this prospectus:
 - (aa) no share or loan capital of our Company or any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (bb) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of our subsidiaries;
 - (cc) no commission has been paid or payable (except to sub-underwriter) for subscribing or agreeing to subscribe, procuring or agreeing to procure subscriptions, for any Shares or shares of any of our subsidiaries;
 - (dd) no founder, management or deferred shares or any debentures of our Company have been issued or agreed to be issued; and
 - (ee) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
 - (ii) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 24 months immediately preceding the date of this prospectus;
 - (iii) none of the parties named in the paragraph headed “Qualifications of experts” in this appendix:
 - (aa) is interested beneficially or non-beneficially in any securities in any member of our Group, including the Shares; or
 - (bb) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group, including the Shares;
 - (iv) our Company and its subsidiaries did not have any debt securities issued or outstanding, or authorised or otherwise created but unissued, or any term loans whether guaranteed or secured as at the Latest Practicable Date;

- (v) our Directors have been advised that, under the laws of the Cayman Islands, the use of a Chinese name registered as a dual foreign name in the Cayman Islands by our Company in conjunction with the English name does not contravene the laws of the Cayman Islands;
- (vi) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (vii) our Group has no outstanding convertible debt securities; and
- (viii) the English text in this prospectus shall prevail over the Chinese text.

13. Bilingual document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy in this prospectus delivered to the Registrar of Companies in Hong Kong for registration were

- (i) copies of the **WHITE, YELLOW, GREEN** and **PINK** Application Forms;
- (ii) the written consents referred to in the section headed “E. Other information — 7. Consents of experts” in Appendix IV to this prospectus; and
- (iii) copies of the material contracts referred to in the section headed “B. Further information about the business of our Group — 1. Summary of material contracts” in Appendix IV to this prospectus.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of CFN Lawyers at 27th Floor, Neich Tower, 128 Gloucester Road, Wan Chai, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles;
- (b) the material contracts referred to under the section headed “B. Further information about the business of our Group — 1. Summary of material contracts” in Appendix IV to this prospectus;
- (c) the service contracts and letters of appointment referred to under the section headed “C. Further information about substantial Shareholders, Directors and experts — 2. Particulars of service contracts” in Appendix IV to this prospectus;
- (d) the written consents referred to under the section headed “E. Other information — 7. Consents of experts” in Appendix IV to this prospectus;
- (e) the Accountants’ Report of our Company prepared by BDO Limited, the text of which is set out in Appendix I to this prospectus;
- (f) the report on unaudited pro forma financial information prepared by BDO Limited, the text of which is set out in Appendix II to this prospectus;
- (g) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of the company law of the Cayman Islands referred to in Appendix III to this prospectus;
- (h) the industry report prepared by Frost & Sullivan;

APPENDIX V**DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE FOR INSPECTION**

- (i) the audited consolidated financial statements of the companies comprising our Group for FY2016, FY2017 and SP2017;
- (j) the Companies Law;
- (k) the rules of the Share Option Scheme referred to under the section headed “D. Share Option Scheme” in Appendix IV to this prospectus;
- (l) the legal opinions prepared by our PRC Legal Advisers;
- (m) the legal opinion prepared by Leong Hon Man Law Office;
- (n) the legal opinion prepared by Goody Burrett LLP; and
- (o) the legal opinion prepared by Nixon Peabody LLP.



MANSION INTERNATIONAL HOLDINGS LIMITED
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Mama's
dear

mídes

Precious 
by mídes