OVERVIEW

We are a one-stop solutions provider of lingerie materials. We were the largest lingerie materials manufacturer in the world in terms of sales revenue in 2012 with a market share of approximately 2.3%, ranking first in the manufacture of elastic fabrics and second in the manufacture of elastic webbing, according to the Frost & Sullivan Report. We are one of the few lingerie materials manufacturers in the world that are able to provide one-stop solutions to lingerie brand owners through our comprehensive product line of lingerie materials, including elastic fabrics, elastic webbing and lace.

We have established long-term and close collaborations with leading lingerie brands including Aimer, Chantelle, Embry Form, Maniform, Marks & Spencer, Spanx, Triumph, Victoria's Secret and Wacoal^. Through our strong innovative and product development capabilities, we not only manufacture lingerie materials for these brands, but also jointly develop new lingerie materials and products with the aim of creating new market trends for lingerie products. We believe that our close collaboration with brand owners allow us to not only keep abreast of the latest trend and demand for the different types of lingerie materials, but also allow us to be part of the trend setters and enhance our relationship with the brand owners. As at the Latest Practicable Date, we had business relationships with such leading lingerie brands for a period ranging from five to 10 years.

Depending on the arrangements with lingerie brand owners, we either directly enter into contracts with lingerie brand owners or enter into contracts with their designated OEMs for our products. For contracts entered into directly with lingerie brand owners, such as Aimer, Embry Form, Maniform, Triumph and Wacoal^, the lingerie brand owners directly place their purchase orders with us for the procurement of our products, such as elastic fabrics, elastic webbing and lace, of which they will further manufacture into lingerie products. For lingerie brand owners which we do not have direct contractual arrangements with, such as Chantelle, Marks & Spencer, Spanx and Victoria's Secret^, they may instruct their OEMs to place orders with us for our products as these brand owners usually drive the lingerie materials procurement process by selecting their desired lingerie materials suppliers.

We have started to broaden our customer base by expanding into new segments and markets. In the second half of 2012, we established our lace business segment to broaden our product offerings and to enlarge our market share in the global lingerie materials market which usually generates a higher gross profit margin compared to other lingerie materials. Further, given the similarities in the specification and functionality of elastic fabrics and elastic webbing used in lingerie and sportswear, we began to further expand into the sportswear materials market by offering elastic fabrics and elastic webbing to sportswear brand owners or sportswear manufacturers for the production of sportswear such as sports bras, cycling, running and yoga outfits and casual apparels. We began to cooperate with certain well-known sportswear brands such as Under Armour in 2012 and Lululemon in 2013 and will continue to seek for potential collaborations with other sportswear brands.

Our research and development team works with the design departments of lingerie brand owners and lingerie manufacturers to turn their design concepts into new products to adapt to evolving consumer demands after which we may provide the newly developed products to them on an exclusive basis. On the other hand, our research and development team works closely with our major raw materials suppliers, who are leading players in the nylon and spandex industries, to

Note:

^ brands are arranged in alphabetical order

develop new fabrics or materials to meet lingerie brand owners' and lingerie manufacturers' specifications. We believe our strong research and development capabilities can assist us in strengthening and maintaining our collaborations with lingerie brands and raw material suppliers.

Our revenue increased from HK$1,397.1 million for the year ended 31 December 2011 to HK$1,659.4 million for the year ended 31 December 2013, representing a CAGR of 9.0%. Our profit for the year increased from HK$205.9 million for the year ended 31 December 2011 to HK$244.5 million for the year ended 31 December 2013, representing a CAGR of 9.0%.

COMPETITIVE STRENGTHS

We believe the following strengths contribute to our position as a leading manufacturer of lingerie materials in the global lingerie materials market:

Leading position in the global lingerie materials industry

We were the largest manufacturer of lingerie materials in the world in terms of revenue in 2012, ranking first in the global elastic fabrics market for lingerie and second in the global elastic webbing market for lingerie, according to the Frost & Sullivan Report. We are one of the few lingerie materials manufacturers that are able to offer one-stop solutions to lingerie brand owners and lingerie manufacturers through our comprehensive product line of lingerie materials. We have established long-term collaborative relationships with leading lingerie brands including Aimer, Chantelle, Embry Form, Maniform, Marks & Spencer, Spanx, Triumph, Victoria's Secret and Wacoal^. Our collaborations with lingerie brand owners allow us to gain market intelligence and differentiate ourselves from other competitors as we are able to produce products different from our competitors' and satisfy the unique needs of customers for high quality lingerie materials, all of which have contributed to our leading position in the global lingerie materials industry.

According to the Frost & Sullivan Report, the sales revenue of the global lingerie materials market is expected to grow from US$7.5 billion in 2012 to US$9.5 billion in 2016. Further, the sales revenue of the global elastic fabrics and elastic webbing for lingerie markets is expected to grow from US$2.1 billion in 2012 to US$2.7 billion in 2016 and from US$1.6 billion in 2012 to US$2.0 billion in 2016, respectively. We believe we are well positioned to expand our market share and grow in the global lingerie materials market.

One-stop solutions provider of a comprehensive range of lingerie materials

We are one of the few lingerie materials manufacturers in the world that are able to provide one-stop solutions to lingerie brand owners. We work closely with lingerie brand owners and lingerie manufacturers to understand and recommend solutions to their design and production processes. We offer a comprehensive product line of lingerie materials to lingerie brand owners and lingerie manufacturers, with a focus in elastic fabrics, elastic webbing and lace. In 2012, elastic fabrics, elastic webbing and lace represented approximately 65.5% of the global lingerie materials market in terms of sales revenue. We present our products as end-products, such as bras and panties, to lingerie brand owners and lingerie manufacturers to provide them with ideas as to how they can use our products to design and assemble their end-products.

Note:

^ brands are arranged in alphabetical order

As lingerie brand owners and lingerie manufacturers require a wide range of lingerie materials, we believe our diverse product portfolio simplifies their sourcing process. Our one-stop solutions means our customers can order all major lingerie materials from us instead of piecemeal procurement from various suppliers. This centralised procurement system helps lower the inventory levels of our customers and shorten their production lead time by allowing them to commence production upon the delivery of our lingerie materials. At the same time, the centralised procurement system enables the synchronisation of the colours of different lingerie materials such as elastic fabrics, elastic webbing and lace by using the same dye. This would help to avoid any discrepancies in the colour of the different parts of the end product. One-stop solutions also allow us to increase our sales through product bundling by offering several products for sale to one customer. We believe our ability to offer one-stop solutions not only allows us to provide our customers with a flexible lingerie supply chain solution, but also enhances our collaborations and relationships with our customers.

Established long-term relationships with leading lingerie brands and lingerie manufacturers

As a result of our strong innovative and design capabilities, consistent high quality products and ability to execute customers' orders, we have established long-term business relationships with leading lingerie brands. Depending on the arrangements with lingerie brand owners, we either directly enter into contracts with lingerie brand owners or enter into contracts with their designated OEMs. We have direct sales relationships with the lingerie brand owners of Aimer, Embry Form, Maniform, Triumph and Wacoal^. For lingerie brands such as Chantelle, Marks & Spencer, Spanx and Victoria's Secret^, for which we do not have direct contractual relationships, such brand owners may instruct their OEMs to place orders with us for our products. These brand owners usually drive the lingerie materials procurement process by designating their desired lingerie materials suppliers to their OEM. Through closely collaborating with brand owners, we have been able to ingrain our products in certain popular lingerie lines of international lingerie brands.

As at the Latest Practicable Date, we had business relationships with leading lingerie brands for a period ranging between five to 10 years. We believe our close and long-term relationships with our customers and lingerie brands cannot be easily replicated by other lingerie material manufacturers, which has enabled us, and will continue to enable us, to differentiate ourselves from other competitors in the lingerie materials market.

Strong innovative and research and development capabilities

Our research and development team works with the design departments of lingerie brand owners and lingerie manufacturers to turn their design concepts into new products to adapt to evolving consumer demands after which we may provide the newly developed products to them on an exclusive basis. For example, in April 2011, we obtained a patent for a new elastic fabric that we invented, and subsequently entered into an exclusivity arrangement with Victoria's Secret where we agreed to supply the patented elastic fabric exclusively. On the other hand, our research and development team works closely with our major raw materials suppliers, who are leading players in the nylon and spandex industries, to develop new fabrics or materials to meet lingerie brand owners' and lingerie manufacturers' specifications. We believe our strong research and development capabilities can assist us in strengthening and maintaining our collaborations with lingerie brands and raw material suppliers.

Note:

^ brands are arranged in alphabetical order

Through our dedication in research and development to produce innovative lingerie materials, we have developed a diversified portfolio of high performance lingerie materials, which focus on quality, comfort and functionality. As at 31 December 2013, our research and development team consisted of 91 design technicians and those are managers or above who have an average of 10 years or above of experience. In recognition of our strong research and development capability, we have been granted the status of "High and New Technology Enterprise" (高新技術企業) since 2010.

Experienced management team and strong corporate culture of innovation and dedication

Our management team consists of Mr. Lu, Mr. Zhang and Mr. Wu, each of whom has over 18 years of experience in the textile industry, and our senior management. We also have young and dedicated senior management team. Our senior management team has an average of over six years of experience in the lingerie materials industry. Each of our five vice presidents, who oversees our sales, production, research and development and human resources departments, has been with our Group for six to 10 years.

Our management team values a strong corporate culture of innovation and dedication. By promoting innovative thinking and fostering career development of our employees, employees are willing to make long-term commitment to our Group, which in turn contributes to our further success. We believe our experienced management team and our strong corporate culture is a key success in the past and will continue to contribute to our growth in the future.

BUSINESS STRATEGIES

We plan to reinforce our position as a leading one-stop solutions provider of lingerie materials in the global lingerie materials market by adopting the following business strategies:

Broaden our customer base by expanding into new segments and markets

By leveraging our expertise in the elastic fabrics and elastic webbing markets, we established our lace segment in the second half of 2012 to further broaden our product portfolio to satisfy customer demands and to enlarge our market share in the global lingerie materials market. The global lace market for lingerie is expected to reach US$1.6 billion by 2016 and usually generates a higher gross profit margin compared to other lingerie materials, according to the Frost & Sullivan Report. We plan to enlarge our market share in the lace market by increasing our designed production capacity from 4.8 million m. per annum for the year ended 31 December 2013 to 19.1 million m. per annum as at 31 December 2015 by purchasing additional machineries for the manufacture of our lace products. We believe through leveraging our success in and by applying the market intelligence we gained from the elastic fabrics and elastic webbing markets and our close relationships with lingerie brand owners and lingerie manufacturers, we will be able to expand our lace business and increase our competitiveness in the lingerie materials industry. We also believe that we can create synergistic value by establishing a more comprehensive product portfolio and improve product bundling opportunities.

Further, given the similarities in the specification and functionality of elastic fabrics and elastic webbing used in lingerie and sportswear, we plan to further expand into the sportswear materials market by offering elastic fabrics and elastic webbing to sportswear brand owners or sportswear manufacturers for the production of sportswear such as sports bras, cycling, running and yoga outfits and casual apparels. We began to cooperate with certain sportswear brands such as Under Armour in 2012 and Lululemon in 2013 and will continue to seek potential collaborations with other sportswear brands. While our primary focus will remain in the lingerie materials market, we will continue to enhance our presence in the sportswear materials industry to broaden our customer base and increase our revenue.

Enhance our one-stop solutions

Given the complexity of sourcing various lingerie materials from multiple manufacturers, we believe we enjoy a significant competitive advantage as one of the few lingerie material manufacturers in the world that offer a diversified product portfolio of elastic fabrics, elastic webbing and lace. To further strengthen our competitiveness and customer relationships, we plan to enhance the one-stop solutions available to our customers by expanding our product portfolio and increasing our research and development capabilities to attract our customers to make bundle purchases of more than one type of lingerie material from us. We believe our one-stop solutions will increase our customers' reliance on us, resulting in an increase in our market share in the global lingerie materials market.

Expand our production capacity and streamline and standardise our production process

In order to further increase our market share and to capture business opportunities arising from the growth in the global lingerie materials market, we plan to increase our production capacity by purchasing additional machineries for our new production facility. We completed the construction of our eighth production facility in the first quarter of 2014 and we expect to obtain the completion certificate in the second half of 2014. For the year ending 31 December 2014, we expect to purchase 55, 129 and 11 additional elastic fabrics, elastic webbing and lace machines, respectively. Our expected capital expenditure for the purchase of new machineries for the year ending 31 December 2014 is approximately HK$108.0 million and will be financed by our cash flows from operations and the proceeds of the Global Offering.

With an aim to making our production process more efficient, we implemented a lean manufacturing production practice and management philosophy centred on increasing production efficiency, improving the quality of products and eliminating waste. Since 2009, we have adopted the lean production practice throughout our production process and going forward, we will continue upgrading and expanding our production machinery and facilities to enhance our production efficiency, reduce consumption costs and increase production capacity.

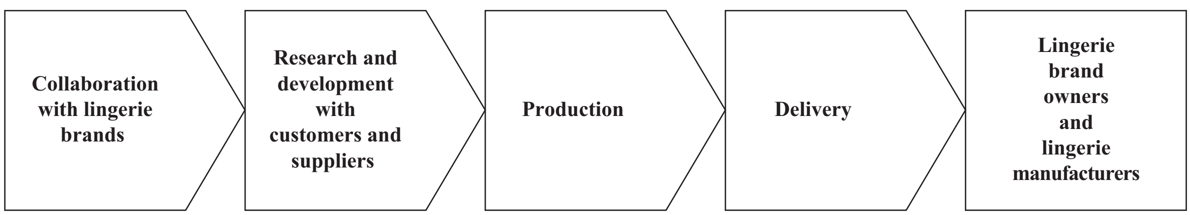
Further strengthen our research and development capabilities

Our long-term success and growth will largely depend on our ability to improve our existing products and to develop new products that meet customers' current and future needs that keeps abreast of changing market trends. In order to further enhance our research and design capabilities, we plan to establish a new research and development facility at our eighth production facility. The operation of our new research and development facility is expected to commence in 2014 and we also plan to further enhance our research and development capabilities by cooperating with local colleges to recruit more talented college graduates that we believe can contribute and bring fresh ideas to our research and development efforts. We estimate that the establishment of the new facility will increase the number of employees in our research and development team from 91 as at 31 December 2013 to 106 by the end of 2014.

Our new research and development facility will continue its focus on research and development of new products, especially for our lace segment, and enhance overall product quality and functionality to cope with customer demands. Our expected total capital expenditure for the new research and development facility is approximately HK$5.0 million and will be financed by our internal resources.

OUR BUSINESS MODEL

We are a one-stop solutions provider for lingerie brand owners and lingerie manufacturers. We are principally engaged in the manufacture and sale of elastic fabrics, elastic webbing and lace used in the production of lingerie. We work in close partnerships with lingerie brand owners and lingerie manufacturers to apply the market intelligence we gain from them in designing our products. We focus on and specialise in providing solutions to problems that lingerie brand owners and lingerie manufacturer may encounter during their procurement process and the design and assembly of their end-products. The following diagram illustrates our value chain and business model:



COLLABORATIONS WITH LINGERIE BRANDS

We collaborate with lingerie brand owners in various stages of the product development of lingerie products. On one hand, our research and development and marketing team works closely with lingerie brand owners to develop new lingerie materials which support such brands' new product designs and requirements for product functionality. On the other hand, we may introduce our newly developed lingerie materials to them and suggest how our products can be integrated into their lingerie products. Through such close collaboration, we have been able to ingrain our products in several popular lingerie lines of international lingerie brands.

We have established long-term and close collaborations with leading lingerie brands including Aimer, Chantelle, Embry Form, Maniform, Marks & Spencer, Spanx, Triumph, Victoria's Secret and Wacoal^. Through our strong innovative and product development capabilities, we not only manufacture products for these brands, but also jointly develop new lingerie materials and products with the aim of creating new market trends for lingerie products. As at the Latest Practicable Date, we had business relationships with such leading lingerie brands for periods ranging from five to 10 years.

We believe our collaborations with lingerie brand owners has enabled us to gain market intelligence and differentiates us from other competitors, which in turn allows us to produce products that meet the unique needs of consumers. When a new product is jointly developed by us and a lingerie brand owner, the brand owner may require us to undertake to supply them with the newly developed materials on an exclusive basis for a certain period of time. For example, we have entered into an arrangement with Victoria's Secret since early 2013 pursuant to which we agreed to exclusively supply a type of elastic fabric to the OEMs designated by Victoria's Secret. If the brand owner does not enter into an exclusivity arrangement with us, we may sell the jointly

Note:

^ brands are arranged in alphabetical order

developed new product to other brand owners or OEMs. As at the Latest Practicable Date, we had applied for and solely owned a patent for a product which we jointly developed with our customer.

Depending on the arrangements with lingerie brand owners, we either directly enter into contracts with lingerie brand owners or enter into contracts with their designated OEMs for our products. For contracts entered into directly with lingerie brand owners, the lingerie brand owners directly place their purchase orders with us for the procurement of our products, such as elastic fabrics, elastic webbing and lace, of which they will further manufacture into lingerie products. We have direct procurement relationships with the lingerie brand owners of Aimer, Embry Form, Maniform, Triumph and Wacoal^.

We have indirect relationships with certain lingerie brand owners such as Chantelle, Marks & Spencer, Spanx and Victoria's Secret^. Under this arrangement, we enter into contracts with the OEMs designated by these brand owners where such brand owners wish to use our products in their lingerie products, instead of directly entering into contracts with the lingerie brand owners. These brand owners usually drive their lingerie materials procurement process and select their desired lingerie materials suppliers for the production of their lingerie products by their OEMs. Our collaborations with these lingerie brand owners are the same as our collaborations with other lingerie brand owners which we have direct contractual relationships with, save for the difference in the placing of purchase orders with us.

Sales, marketing and customer relationships

Our sales teams maintain frequent and personalised contact with lingerie brand owners and lingerie manufacturers to enhance our responsiveness to their specific needs. Our staff of the sales department visits North America and Europe based offices of the brand owners periodically. As at 31 December 2013, our sales and marketing department consisted of approximately 360 personnel, most of whom are based in the PRC and some are based in Hong Kong.

On top of maintaining close relationships with lingerie brand owners and lingerie manufacturers to secure our revenue stream, we also promote our products by participating in exhibitions and trade fairs. We regularly attend lingerie exhibitions and trade fairs in France, Shanghai and Hong Kong in order to enhance our brand recognition, obtain latest market intelligence and attract new customers.

We also expand our customer base and sales through referrals by lingerie brand owners and lingerie manufacturers. For the years ended 31 December 2011, 2012 and 2013, our marketing and promotion expenses were HK$4.3 million, HK$4.2 million and HK$5.0 million, representing 0.3%, 0.3% and 0.3% of our total revenue, respectively.

COLLABORATIONS WITH SPORTSWEAR BRANDS

Given the similarities in the specification and functionality of elastic fabrics and elastic webbing used in lingerie and sportswear, we began to further expand into the sportswear materials market by offering elastic fabrics and elastic webbing to sportswear brand owners or sportswear manufacturers for the production of sportswear such as sports bras, cycling, running and yoga outfits and casual apparels. We began to cooperate with certain well-known sportswear brands such as Under Armour in 2012 and Lululemon in 2013 and will continue to seek for potential

Note:

^ brands are arranged in alphabetical order

collaborations with other sportswear brands. Our collaborations with sportswear brand owners are similar to our collaborations with lingerie brand owners. We collaborate and maintain close communications with sportswear brand owners in various stages of our product development process to ensure that our product satisfies the sportswear brand owner's needs. We have indirect relationships with sportswear brand owners as they do not directly place purchase orders with us for the procurement of our products. Under this arrangement, we enter into contracts with the OEMs designated by these brand owners where such brand owners wish to use our products in their sportswear products, instead of directly entering into contracts with the sportswear brand owners. These brand owners usually drive their sportswear materials procurement process and select their desired sportswear materials suppliers for the production of their sportswear products by their OEMs.

DESIGN, RESEARCH AND DEVELOPMENT

Apart from maintaining close relationships with lingerie brand owners to develop new lingerie materials, we also work closely with our major raw material suppliers, who are leading players in the nylon and spandex industries, to jointly develop new fabrics or materials in response to the evolving market demands. When a new material is jointly developed by us and the supplier, we may request the supplier to enter into exclusively arrangements with us for the supply of the jointly developed material, allowing us to capture the market demands for such new material on an exclusive basis and increase our market share in the global lingerie materials market. The costs associated with our collaborations with our suppliers on research and development are generally shared between us and the suppliers. As at the Latest Practicable Date, no intellectual property rights had been applied for through such collaborations.

As at 31 December 2013, our research and development team consisted of 91 personnel who are led by Mr. Shi Jiangzhi (石蔣志), a member of our senior management team who has been an employee of our Group for approximately 10 years. Our research and development staff works closely with lingerie brand owners to ensure that we can obtain the latest market intelligence. In recognition of our strong research and development capability, we have been granted the status of "High and New Technology Enterprise" (高新技術企業) since 2010. Our research and development efforts focus on developing new products to meet consumer's changing demands to differentiate us from other competitors. After evaluating the commercial rationale, we may apply for a patent on the newly developed products whenever practicable. As at the Latest Practicable Date, we had registered for 30 patents in the PRC which are material in relation to our business.

We have established a design studio in Qingdao City in order to capture local talents and innovation since 2012. We plan to cooperate with local universities on the recruitment of talented university graduates. We believe we can create a positive synergy effect and increase our innovation through cultural exchange and the recruitment of new personnel.

To help us keep abreast of market trends, we work closely with a French fashion consulting firm, to assist us in the design of and advise us in the trends, colours and choice of threads and materials for our elastic fabrics, elastic webbing and lace products. We began our collaboration with the consulting firm in May 2012 and the contract was renewed in August 2013 for a term of three years.

We have equipment in our facilities dedicated to test new concepts for end-products and conduct extensive evaluation of our new designs prior to production. We plan to establish a new research and development facility at our eighth production facility. The main focus of our new research and development facility will be on the development of different types and designs of our products. The operation of our new research and development facility is expected to commence in 2014 and we estimate that the establishment of the new facility will increase the number of employees in our research and development team from 91 as at 31 December 2013 to 106 by the end of 2014. The main focus of our new research and development facility will be on the elasticity, shaping and handfeel of our products.

For the years ended 31 December 2011, 2012 and 2013, our total expenditure on research and development amounted to HK$21.5 million, HK$36.3 million and HK$38.1 million, respectively, representing 1.5%, 2.6% and 2.3% of our total revenue for the same periods. Our research and development expenses mainly consists of materials costs and staff costs.

PRODUCTS

The following table sets forth the revenue and percentage of total revenue contributed by our products during the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	(HK$'000)	%	(HK$'000)	%	(HK$'000)	%
Elastic fabrics	938,119	67.1	928,821	66.2	1,075,977	64.8
Elastic webbing	458,985	32.9	473,706	33.7	563,511	34.0
Lace	—	—	799	0.1	19,959	1.2
	1,397,104	**100.0**	**1,403,326**	**100.0**	**1,659,447**	**100.0**

Elastic fabric

Elastic fabric is a synthetic fabric that stretches and is made from synthetic fibres such as nylon and spandex. By combining different fibre mixtures and using specific knitting methods, our elastic fabrics can carry different features such as shaping, anti-bacterial and quick dry. Our elastic fabric products can generally be divided into two categories, namely warp knitted and weft knitted.

Elastic webbing

Elastic webbing is generally made from synthetic fibres such as nylon and spandex. Elastic webbing is a main accessory for lingerie production and is commonly used as shoulder straps and waistbands. Our elastic webbing products can generally be divided into two categories, namely woven and knitted.

Lace

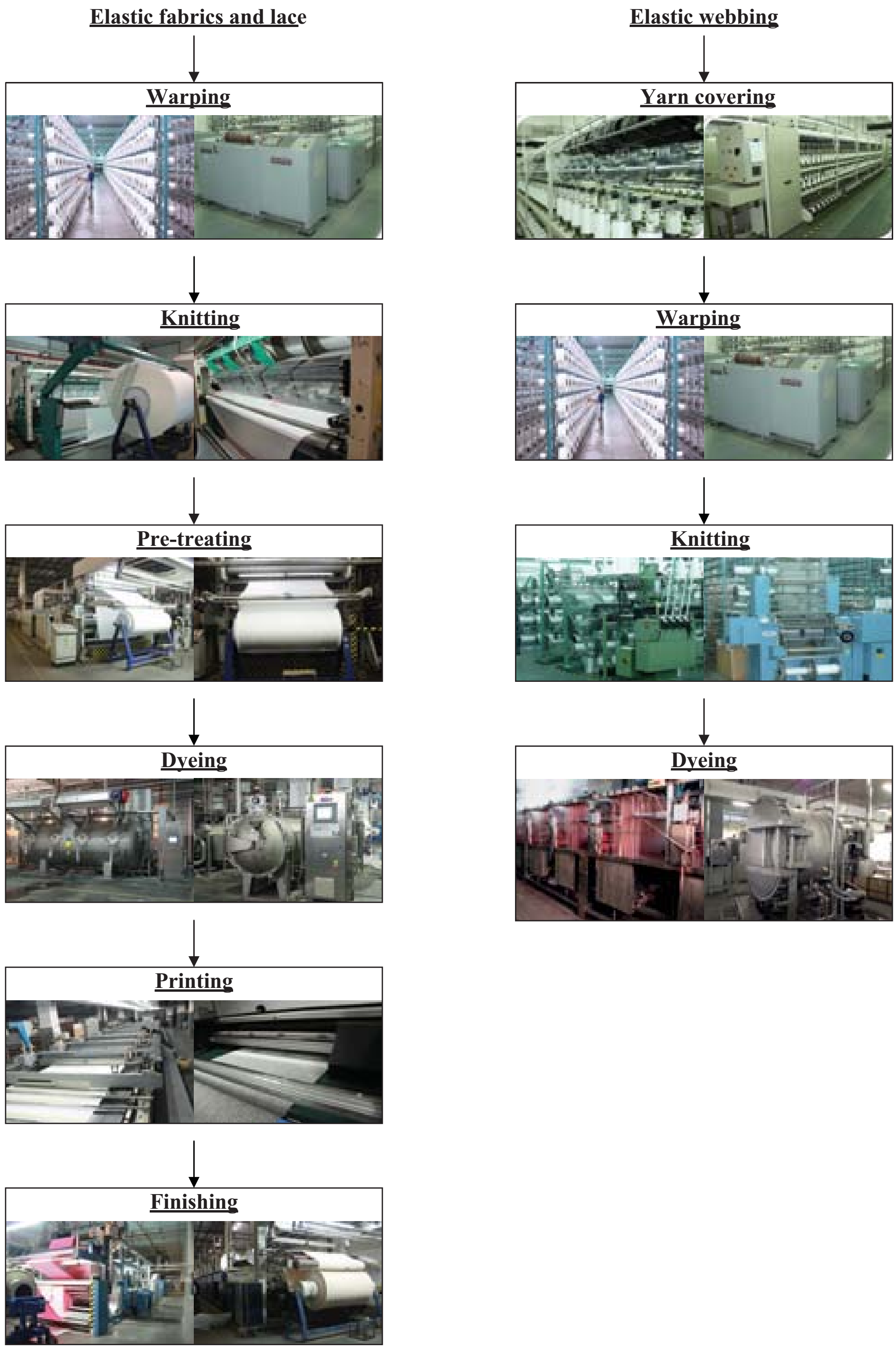
We began to expand our business into the lace industry in the second half of 2012 as lace usually generates a higher gross profit margin compared to other lingerie materials. Lace is a fabric patterned with open holes in the work. Lace is an important material for lingerie that can be manufactured in different colours and patterns. It is commonly used for decorative purposes for lingerie. Our lace products are generally made from synthetic fibres such as nylon and spandex. Lace can generally be divided into four types, namely leavers lace, raschel lace, jacquard lace and textronic lace of which we are able to produce three of them, namely raschel lace, jacquard lace and textronic lace.

PRODUCTION

We manufacture most of our elastic fabrics, elastic webbing and lace at our own manufacturing facilities. During the Track Record Period, we also outsourced a small portion of the manufacturing of our products to contract manufacturers. In general, we recorded higher sales during the second half of the year.

Production process

Our production process is capital intensive as it is highly mechanised. We process nylon and spandex into elastic fabrics, elastic webbing and lace. The following diagram illustrates the production process of our elastic fabrics, elastic webbing and lace:



Production time from raw material to finishing for elastic fabrics and lace will be approximately two to three weeks and for elastic webbing will be approximately one week.

Yarn covering

This process is specific to the production of elastic webbing, which combines two or more types of yarns. Such composite yarn is made of a central part called the core and an outside part called the cover. The spandex or elastic core is given a cover to prevent uneven dyeing.

Warping

The composite yarn created after the yarn covering process is wrapped around the warping axis based on the specified length, width and tension. This process prepares the yarn for the knitting process.

Knitting

Samples of raw materials, such as nylon and spandex, are first checked by our quality control staff to ensure their quality standards before production. Cones of synthetic yarn, after winding, are then arranged in the cylindrical knitting machines for knitting. The knitted greige fabric, elastic webbing or lace is then inspected by the quality control staff before they are transported to the pre-treating process.

Pre-treating

The pre-treating of greige fabrics and lace is an important process to ensure perfect dyeing. Open-width washing machines or solvent scouring machines are often used to soften the fabric and remove spinning oil or lubricants added to the greige fabric, elastic webbing or lace during the knitting process. Such impurities must be removed before dyeing to prevent streaks, spots and uneven dyeing. Stenter machines are then used to pre-set the scoured greige fabric, elastic webbing or lace at high temperatures to reduce creases.

Dyeing

The pre-treated greige fabric or lace is dyed in beam or jet dyeing machines. Different chemicals and dyes are added to the dye bath, which will be heated at high temperatures to strengthen the interaction between the dye and the product. Dyed products will then be dried and sent to our quality control department for inspection. Elastic fabrics, elastic webbing and lace that do not require printing will then process through to the finishing step.

Printing

Customers submit pre-designed patterns to our design studio of which we make into print screens. These screens are either flat, digital or for gold stamping depending on the design specifications. Fabrics are laid under the screens and sent through the printing machine. We offer acid ink, pigmented ink, matte paste, reactive ink and hot stamping foils in gold or silver to our customers for printing. Depending on the printing technique used, the printing process is then finished by steaming, washing or drying.

Finishing

The elastic fabrics and lace are then finished by treatment at high temperatures to meet customers' requirements on the width, weight and shrinkage allowances of each order using stenter machines. The products are then processed using handfeel machines to smooth out the products, diminish roughness and to give the products a shine and fine texture. Special treatments such as moisture management and antibacterial treatment may also be applied during the finishing process depending on the customer's request. The products are then inspected, packed and shipped to our customers.

Production facilities and capacity

During the Track Record Period, all production activities carried out by us were conducted at our production facilities, all of which are located in Dongguan City, Guangdong Province, the PRC. We currently have a total of eight production facilities with an aggregate gross floor area of approximately 218,449.6 sq. m., of which five phases were constructed by ourselves and three were rented by us. The following table sets forth the number of machines, designed capacity, actual output and utilisation rates of our production facilities during the Track Record Period:

	Year ended 31 December											
	2011				2012				2013			
	Number of machines	Designed capacity (million m.)(1)	Actual output (million m.)	Utilisation rate (%)(2)	Number of machines	Designed capacity (million m.)(1)	Actual output (million m.)	Utilisation rate (%)(2)	Number of machines	Designed capacity (million m.)(1)	Actual output (million m.)	Utilisation rate (%)(2)
Elastic fabrics	173	31.7	22.7	71.8	190	39.9	22.8	57.1	235	44.5	28.9	64.8
Elastic webbing	773	779.7	554.1	71.1	775	794.3	563.9	71.0	801	815.8	667.2	81.8
Lace	3	0.0(3)	—	—	9	2.6	0.0	0.0	14	4.8	1.2	25.4

Notes:

(1) The designed capacity is determined based on the management's estimate of the amount of products that a production base or knitting machine is capable of producing on an annual basis and is based on factors which affect normal operating limits such as the capacity of equipment to process a material, the type of product produced, the variability of and availability of raw materials, energy and water and regular and periodic maintenance. The designed capacity of each product type is derived on the assumption that the production is operated 24 hours per day and 330 days per year and calculated by the number of machines on the basis of weighted average by months.

(2) Utilisation rate of each product type is derived by dividing the actual output by the designed capacity.

(3) There was approximately zero designed capacity of lace for the year ended 31 December 2011, as we purchased the lace machines in December 2011.

During the Track Record Period, our designed capacity increased as we purchased additional machineries to cater for the increase in demand of our products. In general, it takes three to nine months from the time we place orders for our machineries until our new production capacity becomes operational as suppliers require time to deliver, help us install and fine-tune the machines before our machines can be used for large-scale production. We did not reach full utilisation rate during the Track Record Period as we continuously purchased additional machineries throughout the Track Record Period in anticipation for our future growth and increase in sales volume.

Outsourced manufacturing

During the Track Record Period, we outsourced a small portion of our production during the peak seasons of our production during the year as we reached full utilisation. In addition, we outsourced the production of lace since we launched our lace segment in the second half of 2012 as most of our lace machineries were being calibrated and tested for large-scale production. We also used most of our machineries for research and development and sampling purposes in the initial stages of the launch of our lace segment. We engage manufacturers, who are mainly located in Guangdong Province, to perform various processing steps, which primarily include the knitting of our products. We select contract manufacturers by evaluating several criteria, including their ability to produce high-quality products according to our specifications and contracted volumes, performance, pricing and experience, among other factors. We provide nylon, spandex and our design and specifications to our contract manufacturers. We enter into individual purchase orders with our contract manufacturers which sets out the quantity, specifications, price and delivery arrangements. We also require certain contract manufacturers to enter into confidentiality agreements with us to protect our designs. We expect outsourcing to OEMs for the manufacture of products will gradually decrease as we expand our production capacity. For the years ended 31 December 2011, 2012 and 2013, our total sub-contracting fee amounted to HK$14.8 million, HK$15.6 million and HK$14.2 million, respectively, representing 1.6%, 1.6% and 1.3% of our total cost of sales, respectively.

EXPANSION PLANS

In view of the expected increase in demand for our products, our Group will engage in expansion projects and upgrade our equipment to enhance our production efficiency and competitiveness.

Our ninth production facility (namely phase VI)

We plan to construct our ninth production facility (namely phase VI), which will have a gross floor area of 34,858.0 sq. m.. Our ninth production facility will be built on the same plot of land as our eighth production facility, of which we have already obtained the land use right for. Our estimated capital expenditure on the construction of the ninth production facility is HK$101.3 million of which HK$1.3 million was incurred for the year ended 31 December 2013, primarily for the pre-construction of the land and HK$100.0 million will be incurred for the year ending 31 December 2015. It is expected that the construction of our ninth production facility will commence in 2015 and our ninth production facility will increase the gross floor area of our production facilities from 218,449.6 sq. m. as at the Latest Practicable Date to 253,307.6 sq. m. by 31 December 2015.

Machineries

We also plan to expand our production capacity by purchasing additional machineries. The following tables set forth the number of additional machineries we plan to purchase, the estimated investment cost for each of the years ending 31 December 2014 and 2015 and our estimated designed capacity as at year end:

	Year ending 31 December					
	2014			2015		
	Addition to number of machines	Additional investment cost (HK$ million)	Estimated designed capacity as at year end (million m. per annum)	Addition to number of machines	Additional investment cost (HK$ million)	Estimated designed capacity as at year end (million m. per annum)
Elastic fabrics	55	20.5	56.8	75	29.4	69.1
Elastic webbing	129	29.9	975.9	129	29.9	1,116.3
Lace	11	57.6	14.2	10	53.2	19.1
Total	**195**	**108.0**	**1,046.9**	**214**	**112.5**	**1,204.9**

Lace

As part of our strategic development and our plan to enhance our position as a one-stop solutions provider for lingerie brand owners by diversifying our product portfolio, our expansion plans for the years ending 31 December 2014 and 2015 will primarily focus on our lace segment. We plan to acquire 11 and 10 new lace machines at expected total costs of HK$57.6 million and HK53.2 million for the same periods, respectively, which will increase our annual designed production capacity of lace products to 19.1 million m. as at 31 December 2015. Our investment cost in lace machineries represents approximately 53.3% and 47.3% of our expected total investment cost in machineries for the years ending 31 December 2014 and 2015, respectively. Up to the Latest Practicable Date, we placed orders for 10 new lace machines which we paid a total deposit of HK$30.4 million for in 2014 and we plan to settle the remaining purchase price by the proceeds from the Global Offering.

Elastic fabrics and elastic webbing

To solidify our leading position in the elastic fabrics and elastic webbing markets, we plan to purchase additional machineries to increase our production capacity in these two segments. The increase in production capacity will allow us to increase our sales by catering the expected increase in demand of our products and in turn allow us to increase our market share. Our investment cost in elastic fabrics machines represents approximately 19.0% and 26.1%, and our investment cost in elastic webbing machines represents approximately 27.7% and 26.6%, of our expected total investment cost in machineries for the years ending 31 December 2014 and 2015, respectively. Up to the Latest Practicable Date, we placed orders for 57 new elastic webbing machines which we paid a total deposit of HK$1.5 million for in 2014 and we plan to settle the remaining purchase price by the proceeds from the Global Offering.

Utilisation

In general, it takes three to nine months from the time we place orders for our machineries until our new production capacity becomes operational as suppliers require time to deliver, help us install and fine-tune the machines before our machines can be used for large-scale production. We believe our expansion plan above will cater for the expected increase in the demand of our products in 2015 and in the future. We plan to increase our production capacity by implementing the abovementioned expansion plan as we expect our utilisation rate to increase or reach full utilisation as a result of the increase in our sales and productions in 2015 and the future.

Impact of our expansion plan

We believe we will be well-positioned to increase our market share in the lingerie materials market through expanding our production capacity. According to the Frost & Sullivan Report, the total sales volume of the global elastic fabrics, elastic webbing and lace for lingerie markets are expected to reach US$2.72 billion, US$1.97 billion and US$1.6 billion by 2016, respectively. In light of our expertise and collaborations with lingerie brand owners and our comprehensive product portfolio, we believe we are well-positioned to enlarge our market share in the above markets.

In light of our expertise and collaborations with lingerie brand owners in the elastic fabrics and elastic webbing markets, the upward trend of our sales in the lace segment during the Track Record Period and the fragmented nature of the lace market, we believe we will compete favourably in and generate higher sales from the lace market. As we expand into the lace market, we expect the revenue and profit generated from our lace segment to contribute a higher percentage of our total revenue and profit. Given that lace usually generates higher gross profit margin, ranging from 40% to 60%, compared to elastic fabrics and elastic webbing, we believe our overall gross profit margin will also increase as we expand into the lace market.

We expect to fund our abovementioned expansion plan with part of the net proceeds from the Global Offering for the year ending 31 December 2014 and 2015. As we increase our production capacity and expand our product portfolio, we believe we will benefit from increased economies of scale and the synergy effect created between our products, and enhance our position as a one-stop solutions provider of lingerie materials. Additionally, we expect that our outsource cost will gradually decline as we expand our production capacity. After our expansion, our working capital needs will increase due to the increased scale of operation. In the event that we fund our capital expenditure of our expansion by using proceeds from new bank loans, the net cash generated from financing activities will increase and the finance cost will increase accordingly.

Future demand of our products and increase in market share

Based on our (i) leading position in the global lingerie materials market; (ii) position as a one-stop solutions provider of a comprehensive range of lingerie materials; (iii) long-term relationships with leading lingerie brands and lingerie manufacturers; and (iv) strong innovative and research and development capabilities, our Directors are of the view that we will be able to increase our market share through the implementation of our above expansion plan. Our Directors are also of the view that there will be sufficient demand for our products which warrant our expansion plan based on (i) the increase in our sales by 18.3% from the year ended 31 December 2012 to 31 December 2013, which is much more than three times higher than the growth rate of the global lingerie materials market of 5.6% during the same period; and (ii) the purchase orders we have received so far in 2014.

PROCUREMENT

Raw materials

The primary raw materials used in our production are nylon and spandex. In addition to nylon and spandex, we also source dyes from our suppliers. For the years ended 31 December 2011, 2012 and 2013, our total cost of raw materials consumed accounted for 66.6%, 62.0% and 59.9% of our total cost of sales, respectively. During the Track Record Period, we purchased our raw materials from the PRC, Taiwan, Hong Kong and overseas suppliers.

The prices of our major raw materials remained relatively stable during the Track Record Period. For further details of the price trend of nylon and spandex during the Track Record Period, please refer to the section headed "Industry Overview — Prices of Raw Materials for Production" in this prospectus.

Suppliers

Our suppliers are primarily manufacturers and sourcing agents of nylon and spandex based in the PRC, Taiwan and Hong Kong. We have established long-term relationships with our major raw materials suppliers, who are leading suppliers in the nylon and spandex industries. As at the Latest Practicable Date, we had business relationships with our five largest suppliers for periods ranging from four to 10 years. We do not enter into long-term supply agreements with our raw material suppliers but place individual purchase orders for our raw materials as we believe this enables us to source high quality raw materials at competitive prices available in the market. We discuss with our suppliers on the expected pricing and volume on a quarterly basis. The credit period of our purchases ranges from 30 to 90 days from the end of the month of delivery and we normally settle our purchases in RMB. We may also use bills to settle our purchases which generally ages within 90 days. Our suppliers generally bear the delivery costs and any losses which we may incur due to any delays in delivery or product defects caused by them.

We carefully select our suppliers and require them to satisfy certain evaluation and assessment criteria. In selecting a new supplier, we take into account factors such as the quality of its products and technological know-how of the supplier, the purchase price and our previous dealings with it. We also evaluate our current suppliers' performance from time to time and eliminate suppliers who fail to meet our standard from our suppliers list and add in new qualified suppliers. Once they become our suppliers, we conduct regular assessments to ensure that they fulfil our requirements on quality control. In particular, our procurement team would carry out on site evaluations at the premises of our main suppliers, and assess their production capacity, so as to ensure that the production capacity of the respective suppliers are sufficient to meet our production and future development needs, and at the same time maintain the quality of the products and materials from the source of supply.

We consider that it is important to maintain good relationships with suppliers and, where possible, diversify our supplier base so as to avoid disruptions in raw material supply. Synthetic fibres such as nylon and spandex are staple goods that are readily available in the local market. As at the Latest Practicable Date, we had not experienced any material difficulties in obtaining any of our raw materials to meet production demands in a timely manner and had not had any material disputes with our suppliers. We conducted a sensitivity analysis to determine our exposure to changes in our cost of raw materials. If our cost of raw materials decreased/increased by 5% with all other variables held constant, our profit for the years ended 31 December 2011, 2012 and 2013 would have increased/decreased by HK$6.9 million, HK$6.1 million and HK$7.3 million, respectively, based on the ratio of net profit to cost of sales for the same periods.

For the years ended 31 December 2011, 2012 and 2013, purchases from our five largest suppliers, which are all Independent Third Parties, accounted for approximately 51.2%, 46.4% and 51.4% of our total purchases, respectively, and purchases from our largest supplier accounted for 24.0%, 20.4% and 22.1% of our total purchases, respectively. During the Track Record Period, our five largest suppliers generally granted us a credit term of 30 to 90 days from the end of the month of delivery and we settled the purchase price through bank transfer or providing a letter of credit.

As at the Latest Practicable Date, none of our Directors, their associates or any Shareholders who, to the knowledge of our Directors, owned more than 5% of our share capital, had any interest in any of our five largest suppliers.

Machinery

The major equipment used in our production includes knitting, dyeing and stenter setting machines. The machines that we use in our production process are mainly purchased from overseas suppliers and imported from Germany. We generally finance our capital expenditure on machineries through instalment loans from banks over a period of time. The warranty period for our equipment and machinery is normally one to three years after which our machinery supplier will provide after-sales services with a fee.

CUSTOMERS

Depending on the arrangements with lingerie brand owners, we either directly enter into a contract with lingerie brand owners or enter into contracts with their designated OEMs for our products. Our indirect customers are primarily lingerie brand owners such as Chantelle, Marks & Spencer, Spanx and Victoria's Secret^ and such brand owners may instruct their OEMs to place orders with us for our products. Our direct customers are primarily lingerie manufacturers in Hong Kong and the PRC who use our products to produce lingerie for their own brands and retailers, such as Aimer, Embry Form, Maniform, Triumph and Wacoal^, or for sale to other brands or retailers.

For the years ended 31 December 2011, 2012 and 2013, sales to our five largest customers accounted for approximately 31.5%, 29.3% and 30.6% of our revenue, respectively, and sales to our largest customer accounted for 12.7%, 11.3% and 13.9% of our revenue, respectively. As at the Latest Practicable Date, our business relationships with our five largest customers ranged from six to nine years. Two of the abovementioned lingerie brand owners who are our direct customers were also our top five customers during the Track Record Period. The remaining top five customers during the Track Record Period were OEMs.

As at the Latest Practicable Date, none of our Directors, their associates or any Shareholders who, to the knowledge of our Directors, owned more than 5% of our share capital, had any interest in any of our five largest customers. During the Track Record Period, none of our suppliers are also our major customers.

Principal contractual terms and credit terms

We enter into individual sales orders with our customers for sales of our products. The terms included in these sales orders usually include the specifications of the product, unit price, volume, delivery and payment terms. We typically require new customers to pay us before we commence production. We generally grant credit periods of 60 to 90 days from the end of the month in which we deliver our products to our major customers. Our sales orders with our customers provide for mutually agreed selling price (which we consider on a cost plus basis) and do not provide for price adjustment mechanisms.

Delivery arrangements

We are responsible for the delivery of our products to customers, as well as the cost of delivery and transportation. In general, for sales to overseas customers, delivery and the transfer of risks takes place when we deliver our products to the agreed port, which is normally in Hong Kong. We have a delivery team to mainly cover delivery within the Guangdong Province, the PRC and to Hong Kong. We outsource the deliveries to distant parts of the PRC to third-party logistics service providers. We enter into service contracts with such logistics companies on an individual basis. For the years ended 31 December 2011, 2012 and 2013, our transportation costs amounted to HK$17.9 million, HK$19.0 million and HK$19.8 million, representing 1.3%, 1.4% and 1.2% of our total revenue, respectively. During the Track Record Period, we did not experience any material disruption to our delivery arrangements and we did not suffer any material losses or pay any compensation as a result of delays in delivery of our products by the logistics companies engaged by us.

Note:

^ brands are arranged in alphabetical order

After-sale services, product returns and warranty

We generally do not provide warranty for our products. We believe it is important to provide timely and specialised after-sale services to assist our customers and lingerie brand owners to resolve any problems or concerns they have in their production process. In addition to confirming orders and product specifications with our customers, our sales department is also responsible for maintaining close communications with our customers after the delivery of our products to ensure that we can respond promptly to any problems our customers may have and to derive a solution to such problems effectively. We have set up standard written procedures to ensure responsible and prompt response to customers' complaints. According to our written procedures, our staff in the sales department are required to immediately complete a customer complaint form for our quality control department upon receiving a complaint. Our quality control department then verifies the details of complaint with other relevant departments and derives a plan to resolve the issue. For the years ended 31 December 2011, 2012 and 2013, our sales returned represented 0.9%, 1.0% and 1.2% of our total revenue, respectively.

During the Track Record Period and up to the Latest Practicable Date, our Group had not received any material complaints and claims from our customers in relation to the quality of our products.

QUALITY CONTROL

We believe reliable delivery of quality products to our customers is critical to our success. Accordingly, we have implemented quality control procedures throughout our production process, from the purchase of raw materials through to packaging. We believe we are able to produce high quality products as a result of our stringent quality control measures.

We have strict quality control measures in each stage of our production process:

Suppliers	We evaluate our suppliers from time to time and conduct on site assessment at the premises of our main suppliers. Please see the paragraph headed "— Procurement — Suppliers" in this section.
Purchase of raw materials	Sample tests are conducted prior to the confirmation of orders to ensure quality. Sample tests are also carried out when raw materials arrive at the factory.
Production	At each stage of our production process, comprehensive tests and research analysis on the quality of the semi-finished and finished products are conducted using international quality standards, with a view to ensuring that customers' specifications are adhered to.
Outsourced manufacturer	We select contract manufacturers by evaluating several criteria, including their ability to produce quality products and experience. Please see the paragraph headed "— Production — Outsourced manufacturing" in this section.

We believe that our products are widely recognised for their quality in the lingerie materials industry, both within and outside the PRC. The following table sets forth details of the major certifications we have applied for and received in relation to our achievements in quality control:

Accreditation	Issuing organisation	Area of accreditation	Date of issue
ISO9001:2008	SGS United Kingdom Ltd.	Quality assurance	6 June 2011
Oeko-Tex Standard 100	Testex	Quality assurance	4 July 2013

The Oeko-Tex Standard 100 is widely used in the textile industry as a uniform global standard for testing and certification. The Oeko-Tex Standard 100 tests harmful substances at all stages of production, including raw materials, intermediate products, and end products. Only manufacturers who comply with strict testing and inspection procedures and provide verifiable quality assurance are allowed to place the Oeko-Tex label on their products.

Our quality control standards have been certified by a number of brand owners which allow us to conduct quality testing on fabrics in our own laboratories without the need to engage a third party laboratory. Our quality control laboratory has been certified by certain lingerie brand owners such as Marks & Spencer. In addition, some major customers send their quality control staff to stay at our production facilities to monitor the quality of our products and production process.

As at 31 December 2013, there were 231 staff in our quality control team. Our quality control department is headed by Ms. Wang Yafeng (王亞鳳), who has a master's degree in textile chemistry and dyeing and finishing engineering with eight years of experience in the lingerie materials industry.

INVENTORY CONTROL

We keep a wide range of different raw materials as our inventory as we aim to produce a wide range of unique and innovative products for our customers. Our inventory consists of raw materials, work in progress and finished goods. We had inventories of HK$231.4 million, HK$230.6 million and HK$317.9 million as at 31 December 2011, 2012 and 2013, respectively. Our storage facilities are located at our production base.

We operate a continuous production cycle by maintaining an average inventory level of raw materials to meet approximately three months of production demand to manage any shortage, delay in supply of and fluctuations of prices of raw materials. We monitor our inventory levels through our self-developed ERP system which enables us to obtain real-time information on our inventory levels and evaluate whether our inventory levels can cater our projected sales. Our appointed staff conducts stock take at our production base on a monthly basis to monitor our inventory levels. Our production manager is responsible for maintaining communications with the purchasing and logistics department on a regular basis to ensure a sufficient level of raw materials for production.

We believe our raw materials are not obsolete and slow moving and do not have expiration dates. We carry out an inventory review and an ageing analysis on a regular basis. We make provision for obsolete and slow-moving inventories of raw materials and finished goods that are no longer suitable for use in production or sale, respectively. A number of factors including historical and forecast consumption of our raw materials, marketability of our products, are taken into account when we consider whether to make appropriate provision. We normally make full provision for inventories, which are aged over two years and at the same time, have also been identified with slower or no usage or sale and deteriorated marketability. We made allowance for obsolete inventories of HK$6.4 million, HK$7.4 million and HK$6.3 million for the years ended 31 December 2011, 2012 and 2013, respectively.

INFORMATION SYSTEM

Our ERP system integrates various information in relation to, among others, our procurement, production and sales under one system. The centralisation of such data enables us to thoroughly manage our manufacturing, supply chain, logistics, information flow, fund flow and inventory control through real time input, payroll and status checks of our purchases and orders, raw materials and inventory levels, accounts receivables and payables, as well as to monitor our production schedule, logistics support and warehousing needs.

AWARDS AND ACCREDITATIONS

The following table sets forth our recent awards and certifications:

Year	Award	Awarding and issuing authority
2013 and 2010	High and New Technology Enterprise (高新技術企業)	Guangdong Provincial Department of Science and Technology (廣東省科學技術廳), Guangdong Provincial Department of Finance (廣東省財政廳), Guangdong Provincial Bureau of State Taxation (廣東省國家稅務局) and Guangdong Provincial Bureau of Local Taxation (廣東省 地方稅務局)
2012	Model Enterprise for Processing Trade Transformation and Upgrade in Guangdong Province (廣東省加工貿易轉型升級示範企業)	People's Government of Dongguan City (東莞市人民政府) and the Guangdong Provincial Department of Foreign Trade and Economic Cooperation (廣東省對外貿易經濟合作廳)
2012	Harmonious Labour Relations Model Enterprise in Dongguan City (東莞市勞動關係和諧企業)	Dongguan Human Resources Bureau (東莞市人力資源局)
2011	Enterprise Technology Centre of Guangdong Province (廣東省企業技術中心)	Economy and Information Committee of the Guangdong Province (廣東省經濟與信息化委員會)
2011	Technological Research and Development Centre of fibre warp knit engineering in Dongguan City (東莞市化纖經編織物工程技術研究開發中心)	Science and Technology Department of Dongguan City (東莞市科學技術局)
2011	Harmonious Labour Relations Model Enterprise in Guangdong Province (廣東省模範勞動關係和 諧企業)	Guangdong Provincial Department of Human Resources and Social Security Department (廣東省人力資源和社會保障廳)
2011	Patent Cultivating Enterprise of the Dongguan City (東莞市專利培育企業)	Dongguan City Technology Bureau (東莞市科學技術局) and Intellectual Property Department of Dongguan City (東莞市知識產權局)

MARKET AND COMPETITION

We believe the global lingerie materials market is fragmented with a large number of local and overseas players. According to the Frost & Sullivan Report, in 2012, the top five players in the global lingerie materials market in aggregate occupied only approximately 9.0% of the market share by sales revenue. We mainly compete with domestic and international lingerie material manufacturers based on product quality, product differentiation, brand recognition, production capacity and production technology. We believe the establishment of lingerie material manufacturing facility requires substantial capital commitments. In particular, substantial capital commitment is needed to achieve production volumes that provide reasonable economic return and therefore, new market entrants without a track record face obstacles in obtaining customer acceptance. While we believe that the principal bases upon which we compete are product quality, timely delivery and customer services, we compete favourably with our competitors by offering one-stop solutions providing a wide range of high quality products at reasonable prices. Accordingly, we believe that we have established a leading market presence in the lingerie materials industry. For further details on the competitive landscape of the industry in which we operate in, please refer to the section headed "Industry Overview — The Global Lingerie Materials Market" in this prospectus.

INTELLECTUAL PROPERTY

We recognise the importance of protecting and enforcing our intellectual property rights. We rely on various intellectual property laws to protect our proprietary rights. Details of our intellectual property rights which we consider material to our business operation are more particularly set out under the section headed "Statutory and General Information — B. Further Information about our Business — 2. Intellectual property rights of our Group" in Appendix V to this prospectus.

As at the Latest Practicable Date, we were not aware of any material infringement of our intellectual property and we believe that we have taken reasonable measures to prevent infringement of our own intellectual property rights. Our Directors confirm that we have not infringed any other third-parties' intellectual property rights during the Track Record Period that would have a material and adverse impact to our operation and financial position and, as at the Latest Practicable Date, we did not have any pending or threatened claims against us or any of our subsidiaries relating to the infringement of any intellectual property rights owned by third parties.

PROPERTIES

Owned properties

Land

As at the Latest Practicable Date, we owned land use rights for two parcels of land with a total site area of approximately 160,033.2 sq. m..

We own land use rights for a parcel of land located in Maer Village, Machong Town, Dongguan City, Guangdong Province, the PRC with a site area of 101,728.0 sq. m. We have obtained land use rights for this parcel of land for industrial use for a term expiring on 28 March 2055. We mainly use this land as a factory complex for our production, storage and office.

We also own land use rights for a parcel of land located in Masi Village, Machong Town, Dongguan City, Guangdong Province, the PRC with a site area of 58,305.2 sq. m. We have obtained land use rights for this parcel of land for industrial use for a term expiring on 18 December 2060.

As advised by our PRC Legal Adviser, we have obtained all state-owned land use right certificates for the land we use and we are entitled to transfer, pledge, lease, occupy or use of the land use rights under applicable PRC laws and subject to the conditions stipulated by the mortgage contract concerning the land.

Buildings

As at the Latest Practicable Date, we held building ownership certificates for buildings with an aggregate gross floor area of 140,754.4 sq. m. in Dongguan City, Guangzhou Province, which are mainly used as phases I to IV of our production facilities, storage and office. As advised by our PRC Legal Adviser, we have legally and validly obtained and held all building ownership certificates for the aforesaid buildings we own, and we are entitled to occupy, use, transfer, lease, pledge or otherwise dispose of the buildings under applicable PRC laws and subject to the conditions stipulated by the mortgage contract concerning the buildings.

In addition, we completed the construction of our eighth production facility, namely phase V, in Dongguan City, Guangzhou Province with a total gross floor area of 35,575.2 sq. m. in the first quarter of 2014, and we expect to obtain the completion certificate in the second half of 2014.

Leased properties

As at the Latest Practicable Date, we leased eight properties with an aggregate gross floor area of approximately 60,673.7 sq. m. which are primarily used as our production facilities and staff dormitories.

Lack of property ownership certificates from lessors

Among the eight leased properties, five of the lessors are not able to provide valid property ownership certificates and other relevant documents (one of which was not able to provide valid property ownership certificates and other relevant documents for a portion of the property). As a result, as advised by our PRC Legal Adviser, the relevant leasing agreements of these leased properties may be deemed invalid and we may be forced to vacate the properties. One of these properties is used as our production facilities and the remaining four are used as our staff dormitories. In the event that we are required to relocate these five properties, the total relocation cost is estimated to be approximately HK$1.7 million. Our Directors confirm that it would not take more than three months to find a suitable replacement with comparable rental expense and location.

Our Directors believe that our business operation will not be materially affected if we are required to vacate these properties as we will be able to relocate the production facility and staff dormitory without significant difficulty. Furthermore, our Controlling Shareholders have also provided an indemnity in favour of us against all losses, expenses and damages which we may incur due to any dispute in respect of these five properties.

INSURANCE

Insurance is important to our business. We maintain insurance policies for our production facilities, which cover damage caused by certain accidents and natural disasters such as fire. We also maintain commercial insurance for inventory and employees.

We maintain export credit insurance for products that we export and some of our local sales, which insures us against non-payment by our customers after delivery of our goods.

Our Directors are of the view that our insurance coverage is adequate and is in line with the industry practice.

EMPLOYEES

As at 31 December 2013, we employed 3,230 full-time employees, of which most are stationed in the PRC. The following table shows a breakdown of our employees by department as at that date:

Division	Number of Employees
Management and administration	219
Research and development	91
Production	2,230
Sales and marketing	360
Finance and accounting	38
Purchasing and logistics	61
Quality control	231
Total	**3,230**

We believe our management policies, working environment, employee development opportunities and employee benefits have contributed to good employee relations and employee retention. We recruit our employees based on a number of factors such as their work experience, educational background and vacancy needs. We provide introductory and continuous training programmes for our employees to equip them with the requisite skills and knowledge for their positions. As at the Latest Practicable Date, we had not experienced any labour strikes or major labour disputes.

For the years ended 31 December 2011, 2012 and 2013, our employee benefit expenses were HK$189.6 million, HK$224.5 million and HK$284.7 million, respectively.

In accordance with applicable PRC regulations on social insurance and housing funds, we contribute to social insurance and housing funds for our employees. According to confirmations issued by Social Security Bureau of Dongguan City (東莞市社會保障局) on 18 December 2012, which, according to our PRC Legal Adviser, is the competent authority to issue the confirmation, each of our PRC subsidiaries did not have any outstanding social insurance payment since incorporation to the date of the confirmations and had not been subject to any penalty due to the breach of the relevant laws on social insurance.

Dongguan BPT and Dongguan NHE completed the registration of housing provident funds in April 2009 and November 2010, respectively. Our PRC Legal Adviser interviewed the vice president of Dongguan City Housing Provident Funds Management Centre on 15 January 2014. The vice president has confirmed to us that, as the housing provident fund scheme was implemented in stages in Dongguan City, enterprises established before 1 January 2008 are required to make supplemental payments for the period from 1 January 2008 to the registration date of housing provident funds. Given that Dongguan BPT made supplemental payment for the housing provident fund according to the housing provident funds policy of Dongguan City, the vice president confirmed that Dongguan City Housing Provident Funds Management Centre will not impose any penalty on Dongguan BPT due to its previous failure to complete the registration of and pay housing provident funds before 1 January 2008 in the future. Further, according to confirmations issued by Dongguan City Housing Provident Funds Management Centre (東莞市住房公積金管理中心) on 14 January 2014, which, according to our PRC Legal Adviser, is the competent authority to issue the confirmation, each of our PRC subsidiaries has contributed to the housing funds for our employees and we are not subject to any administrative punishment as a result of any breach of the applicable laws and regulations on housing funds.

HEALTH AND OCCUPATIONAL SAFETY

We have implemented measures at our production facilities to promote occupational health and safety and to ensure compliance with applicable laws and regulations. We publish bulletins with occupational health and safety discussions to promote the importance of and to raise the awareness of occupational health and safety among our employees. We have established a series of safety guidelines, rules and procedures for different aspects of our production activities, including fire safety, warehouse safety, work-related injuries and emergency and evacuation procedures.

During the Track Record Period, we did not experience any accidents or claims for personal or property damage that, individually or in aggregate, have had a material effect on our Group's financial condition and results of operations. We had complied with the applicable national and local health and safety laws and regulations in all material respects, and the relevant PRC authorities have not imposed any sanctions or penalty on us for incidents of non-compliance of any health and safety laws or regulations in the PRC.

ENVIRONMENTAL PROTECTION

Manufacturing enterprises in the PRC are subject to various PRC environmental protection laws and regulations, which include the Environmental Protection Law of the PRC (中華人民共和國環境保護法) and Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法). In addition, current PRC national and local environmental protection laws and regulations impose fees for the discharge of polluted water. For further details, please refer to the section headed "Laws and Regulations — Laws and Regulations Relating to Environmental Protection" in this prospectus.

We are committed to operating in compliance with applicable environmental laws and regulations and have taken steps to ensure that any waste and by-products produced as a result of our operations are properly treated and discharged so as to minimise the adverse effects to the environment. We have an on-site sewage treatment plant that treats sewage generated from our production process, in particular, dyeing and printing processes, by chemical and biological treatments. Processed sewage is required to meet certain chemical standards prescribed by the environmental protection department before it is discharged to the municipal sewage treatment network. The environmental protection department has set up monitoring equipment at our sewage treatment plant to ensure the processed sewage meets the prescribed standard before discharged.

Officers of the government's environmental protection department also visit us on a regular basis to inspect our plant and equipment. Since the commencement of our operation and up to the Latest Practicable Date, we had not been subject to any material penalty or fines imposed by the environmental protection authorities. For the years ended 31 December 2011, 2012 and 2013, our cost of compliance with the relevant environmental protections laws and regulations were approximately HK$8.3 million, HK$11.5 million and HK$12.0 million, respectively.

According to the written confirmation from the Dongguan Environmental Protection Bureau dated 17 December 2013 to Dongguan BPT and the written confirmation from Houjie Branch of the Dongguan Environmental Protection Bureau (東莞市環境保護局厚街分局) dated 31 December 2013 to Dongguan NHE, save as the RMB90,000 fine as a result of our failure to obtain the relevant approval for our sewage treatment facility before expanding our production facility, we have not been charged for, or incurred any penalties or fines, in respect of the violation of any relevant PRC environmental protection laws and regulations. As advised by our PRC Legal Adviser, such environmental protection authorities are the appropriate authorities to issue the confirmations.

FOREIGN EXCHANGE CONTRACTS

As a substantial portion of our revenue is denominated in U.S. dollars and Hong Kong dollars and our purchases and expenses are denominated in RMB, we are exposed to foreign exchange fluctuations. To reduce our exposure to foreign exchange fluctuations of U.S. dollars and Hong Kong dollars against RMB, we entered into foreign exchange contracts with certain banks in Hong Kong during the Track Record Period. These foreign exchange contracts are either capped forward contracts or knock out forward contracts. Under capped forward contracts, we shall pay U.S. dollar and receive RMB if the spot rate between US$ and RMB is lower than the contract rate specified in the relevant agreements, ranging from RMB6.4 to RMB6.5 for US$1, on respective settlement dates based on the notional amount and the contract rate. Where the spot rate is above the contract rate on respective settlement dates, we shall pay U.S. dollar and receive RMB based on the contract amount multiply by two with respective banks. As at 31 December 2012 and 2013, the aggregate notional amount of these capped forward contracts were US$27 million and US$5.5 million, respectively and their fair value was HK$2.2 million and HK$1.1 million, respectively.

Under knock out forward contracts, we shall pay U.S. dollar and receive RMB with agreed amount with banks when spot rate between US$ and RMB is above a specified rate or we would receive a fixed amount from bank when the spot rate is below the specified rate on the respective settlement dates. During the year ended 31 December 2011, the aggregate notional amount of these knock out forward contracts was US$12 million and as at 31 December 2011, their fair value amounted to HK$0.8 million. During the year ended 31 December 2012, we entered into another type of knock out forward contracts with aggregate notional amount of US$48 million. Under these knock out foreign contracts, we shall pay U.S. dollar and receive RMB with an agreed amount multiply by two at a specified exchange rates, pay U.S. dollar and receive RMB with the agreed amount with the bank when the spot rate fall within the specified range and we shall receive a fixed amount if the spot rate is below the specified rate on the settlement dates. The fair value of these knock out forward contracts was HK$1.4 million and HK$0.4 million as at 31 December 2012 and 2013, respectively, and they will be matured in April 2014.

We have ceased to enter into such foreign exchange contracts since the first quarter of 2013 and we currently do not have any intention to enter into additional foreign exchange contracts as our Directors were of the view that the rate of appreciation of the RMB in 2013 and the coming years was and would be slower than that in 2011 and 2012. Going forward, we intend to manage our foreign exchange risks by (i) managing our sales, purchases and expenses denominated in Hong Kong dollars and U.S. dollars through our Hong Kong subsidiaries and managing our sales, purchases and expenses denominated in RMB through our PRC subsidiaries; and (ii) holding cash and bank deposits denominated in RMB primarily by our PRC subsidiaries and cash and bank deposits denominated in Hong Kong and U.S. dollars primarily by our Company and Hong Kong subsidiaries. Our finance department will monitor our foreign exchange risk on a continuous basis by analysing our domestic and overseas sales order on hand, expected domestic and overseas orders from customers and estimated foreign currency payment for our purchases. In the event that we decide to enter into such contracts in the future, we will adopt appropriate internal control measures to monitor our exposure to foreign exchange contracts. For further details on the risks associated with our foreign exchange contracts, please refer to the section headed "Risk Factors — Risks Relating to our Business" in this prospectus.

LICENCES, APPROVALS AND PERMITS

According to our PRC Legal Adviser, we have obtained all requisite permits, licenses and approvals for the business scope set out under our business licence. We are permitted to operate such business scope under such permits, licences and approvals and are in compliance with all relevant laws and regulations of the PRC in all material respects, save as disclosed in the paragraph headed "— Legal Proceedings and Compliance — Non-compliance records" in this section.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and as at the Latest Practicable Date, we were not involved in any litigation, arbitration, bankruptcy or receivership proceedings pending or, to our knowledge, threatened against us or any of our Directors that could have a material adverse effect on our business or operations.

Non-compliance records

The following table sets forth non-compliances relating to our Group during the Track Record Period:

Historical non-compliance	Reason(s) for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status
1. Non-compliant bill financing arrangements			
From 4 January 2011 to 16 July 2012, Dongguan BPT entered into credit agreements with the Endorsing Banks (defined below) for issuance of bank acceptance notes as payment to certain of our suppliers which are also our related companies. Dongguan BPT delivered such bank bills to the counterparties and the counterparties subsequently endorsed the bank bills to Dongguan BPT. Dongguan BPT then presented such bank bills to other PRC commercial banks for discounting at an amount equal to their face value less any discounted charges. Such bill financing arrangements did not therefore comply with the terms of the credit agreements and Article 10 of the PRC Negotiable Instruments Law ("**Non-compliant Bill Financing Arrangements**"). The Non-compliant Bill Financing Arrangements were entered into in order to (i) finance our Group's operation with a view to lowering the overall interest expenses and financing costs of Dongguan BPT; (ii) maintain good business relationships between our Group and the Endorsing Banks; and (iii) obtain financing for our expansion and capital expenditure.	The Non-compliant Bill Financing Arrangements were approved by a senior manager of our finance department who was in charge of treasury functions. As our internal control measures relating to the issuance and discounting of bank bills at the subsidiaries level at the time when the Non-compliant Bill Financing Arrangements occurred were insufficient, we only became aware of the non-compliance of the Negotiable Instruments Law when we carried our statutory audit.	Please refer to the paragraph headed "— Non-Compliant Bill Financing Arrangements — Opinion of our PRC Legal Adviser" in this section.	Please refer to the paragraph headed "— Internal Control and Corporate Governance Measures" in this section.

Historical non-compliance	Reason(s) for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status
For details of the Non-Compliant Bill Financing Arrangements, please refer to the paragraph headed "—Non-Compliant Bill Financing Arrangements" in this section.			

2. Section 122 of the predecessor Companies Ordinance (now Section 431 of the Companies Ordinance)

Historical non-compliance	Reason(s) for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status
Certain subsidiaries of our Company namely, BPT, BPT (HK), BP Investment, New Horizon Elastic and New Horizon Investment (the "**Relevant HK Subsidiaries**") failed to present their respective audited accounts on six occasions at their respective annual general meetings held between 2004 and 2011 but only presented them on various subsequent occasions.	Pursuant to Section 122 of the predecessor Companies Ordinance, the directors of a Hong Kong company must cause the profit and loss account and balance sheet of the company to be prepared and presented before the company at its annual general meetings. As the respective audited accounts of the Relevant HK Subsidiaries were not available at the relevant times, such accounts had not been laid before the respective annual general meetings at the material times and the requirements under Section 122 of the predecessor Companies Ordinance were not complied with. Such non-compliances were due to the lack of legal knowledge and unintentional and inadvertent oversight of the directors of the Relevant HK Subsidiaries regarding the requirements under the predecessor Companies Ordinance.	Directors who fail to take reasonable steps to comply with Section 122 of the predecessor Companies Ordinance are subject to imprisonment for 12 months and a fine of HK$300,000. We had not received any penalty notice in relation to Section 122 of the predecessor Companies Ordinance during the Track Record Period and up to the Latest Practicable Date. As at the Latest Practicable Date, there had not been any prosecution initiated against the Relevant HK Subsidiaries or their then or current directors. In view of the above, our Directors do not foresee there being any material operational and/or financial impact on our Group arising from such past non-compliances and has not made any provision in our accounts therefor.	As advised by our special legal adviser in relation to the non-compliance of section 122 of the predecessor Companies Ordinance, Mr. Matthew Ho, a barrister-at-law in Hong Kong (the "**Adviser**"), each of the directors of the Relevant HK Subsidiaries at the material times are potentially liable for non-compliance with Section 122 of the predecessor Companies Ordinance. The Adviser is of the view that: (i) there is only remote prospect that the Relevant HK Subsidiaries or their directors at the material times will be prosecuted; (ii) the Court would not impose any sentence of imprisonment against any particular director unless the Court is of the opinion that the offence was committed wilfully; (iii) any penalty, if applicable in the circumstances, would likely only be a fine in the region of around HK$10,000 for each of the Relevant HK Subsidiaries or directors at the material time in respect of each of the Relevant HK

Historical non-compliance	Reason(s) for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status
			Subsidiaries; and (iv) if prosecution is initiated, the Relevant HK Subsidiaries or their directors at the material times will have an arguable defence. The Adviser's above mentioned opinion is based on the following reasons: (i) the non-compliances were inadvertent and were likely due to genuine mistakes; (ii) evidence from the affected shareholders or ultimate beneficial owners of the Relevant HK Subsidiaries shows that no prejudice has been caused to them as a result of the non-compliances; and (iii) remedial actions had been taken by the Relevant HK Subsidiaries.
3. Advances to related parties			
During the Track Record Period, we made loans to Guangzhou Premium Fashion Company Limited (廣州市質品服飾有限公司), a related party enterprise. For the years ended 31 December 2011, 2012 and 2013, our interest income from Guangzhou Premium Fashion Company Limited was nil, HK$0.9 million and nil, respectively. These loans were interest-bearing but we subsequently returned all interests received to the borrower. According to our PRC Legal Adviser, such lending activities between enterprises did not comply with certain provisions of the Lending General	The non-compliant loans represented temporary advances to Guangzhou Premium Fashion Company Limited (廣州市質品服飾有限公司) and were entered into due to our unfamiliarity with relevant regulatory requirements and a lack of internal control measures to monitor connected transactions.	According to the Lending General Provisions, where enterprises engage in borrowing and lending without authorisation, the PBOC may impose a fine on the lending party in an amount equal to one to five times the interest generated from the lending activity, and concurrently, invalidate such lending activity.	Our PRC Legal Adviser is of the view that, as we (i) returned all interests we received from the borrower; and (ii) had collected our loans to Guangzhou Premium Fashion Company Limited (廣州市質品服飾有限公司), there is no basis for the PBOC to impose any penalty on us. Our Directors confirm that we will not continue such lending activities to related or third party enterprises. To prevent similar non-compliance incidents and also to ensure our on-going compliance with the relevant PRC laws and regulations, we have

Historical non-compliance	Reason(s) for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status
Provisions (貸款通則) promulgated by the PBOC in 1996.			adopted measures to ensure that any lending to related parties must have the appropriate level of approval from our Board. Please refer to the paragraph headed "— Internal Control and Corporate Governance Measures" in this section.
4. Unregistered leases in the PRC			
Among our eight leased properties in the PRC, two of the leases were not registered with the relevant PRC authorities (one of which the lease was only registered for a portion of the property) primarily due to the non-cooperation of the relevant lessors. One of these properties is used as our production facility and the other is used as our staff dormitory.	The lessors were not able or refused to provide valid property ownership certificate or other relevant documents.	Our PRC Legal Adviser has advised us that we may be required by the relevant PRC authorities to register the relevant lease agreements within a prescribed time limit. If we fail to do so, we may be subject to fines ranging from RMB1,000 to RMB10,000 for each non-registered lease, the maximum penalty for our failure to register the two leased properties with the relevant PRC authorities would be approximately RMB20,000. During the Track Record Period and up to the Latest Practicable Date, we had not been ordered by any authorities to register any of the unregistered lease agreements.	Our PRC Legal Adviser has advised us that the lack of registration of a lease will not affect its legality. In the event that we are ordered by the relevant PRC authorities to register the relevant lease agreements and we are unable to do so, we will relocate our production facility and staff dormitory. The estimated cost for the relocation of these two properties is approximately HK$1.7 million. The products, which were our elastic webbing, mainly produced from the production facility of which the lease was not registered contributed approximately 32.9%, 33.7% and 34.0% of our total revenue for the years ended 31 December 2011, 2012 and 2013, respectively. Our Directors are of the view that it would not take more than three months to find a suitable replacement with comparable rental expense and location. Based on the three-month relocation period and the monthly average revenue

Historical non-compliance	Reason(s) for non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken, provisioning and latest status
			of elastic webbing, the estimated loss of revenue due to the relocation would be approximately 8% of the total revenue during the Track Record Period.
5. Temporary structures			
As a result of our rapid expansion and lack of space, we constructed two temporary structures covering a total gross floor area of approximately 3,160 sq. m. (representing approximately 2.2% of our total gross floor area) at our production facility located in Maer Village, Machong Town, Dongguan City, at a total cost of HK$6.6 million. We use such temporary structures as one of our cafeterias and offices and the net book value of which was approximately HK$5.4 million as at 31 December 2013, representing less than 1% of our then net asset value. As advised by our PRC Legal Adviser, we have not obtained the approval for the construction of these two temporary structures in accordance with the relevant PRC laws.	The non-compliant temporary structures were constructed as we did not seek expert advice on our building plans and were unaware that the construction of temporary structures requires approval from the relevant government authorities.	According to the Town and Country Planning Law of the PRC* (中華人民共和國城鄉規劃法), any temporary structures without the relevant approval may be subject to orders for demolition and a fine of not more than the construction cost.	We plan to relocate the relevant cafeteria and office to our new production facility (the ninth production facility) by 2015 and will subsequently demolish the two temporary structures. Our Directors are of the view that in the event that we are ordered to demolish the two temporary structures by the relevant government authority, we will be able to find an alternative area for our cafeteria and office easily and the demolition will not have any material effect on our operations. The estimated relocation cost and demolition cost are HK$30,000 and HK$150,000, respectively. We have made provisions for the fine, relocation cost and demolition cost of such non-compliance in the amount of HK$6.6 million. To prevent future similar non-compliance incidents, any expansion and building plans must be approved by our Board and we will seek relevant expert advice regarding our expansion and building plans.

In relations to the failure to register our lease agreements, based on our Directors' view that (i) it is not difficult to find a suitable replacement with comparable rental expense and location; and (ii) relocation costs and estimated loss of revenue due to relocation is not significant, and, in relations to the failure to obtain the relevant approval for the construction of temporary structures, based on our Directors' view that (i) the temporary structures are not used as our production facilities; and (ii) we can easily relocate our cafeteria and offices to our new production facility, our Directors do not consider the failure to register our lease agreements and the failure to obtain the relevant approval for the construction of temporary structures to be material non-compliance incidents. Our Directors do not foresee that these non-compliance incidents will cause any material impact or interruption on our operation.

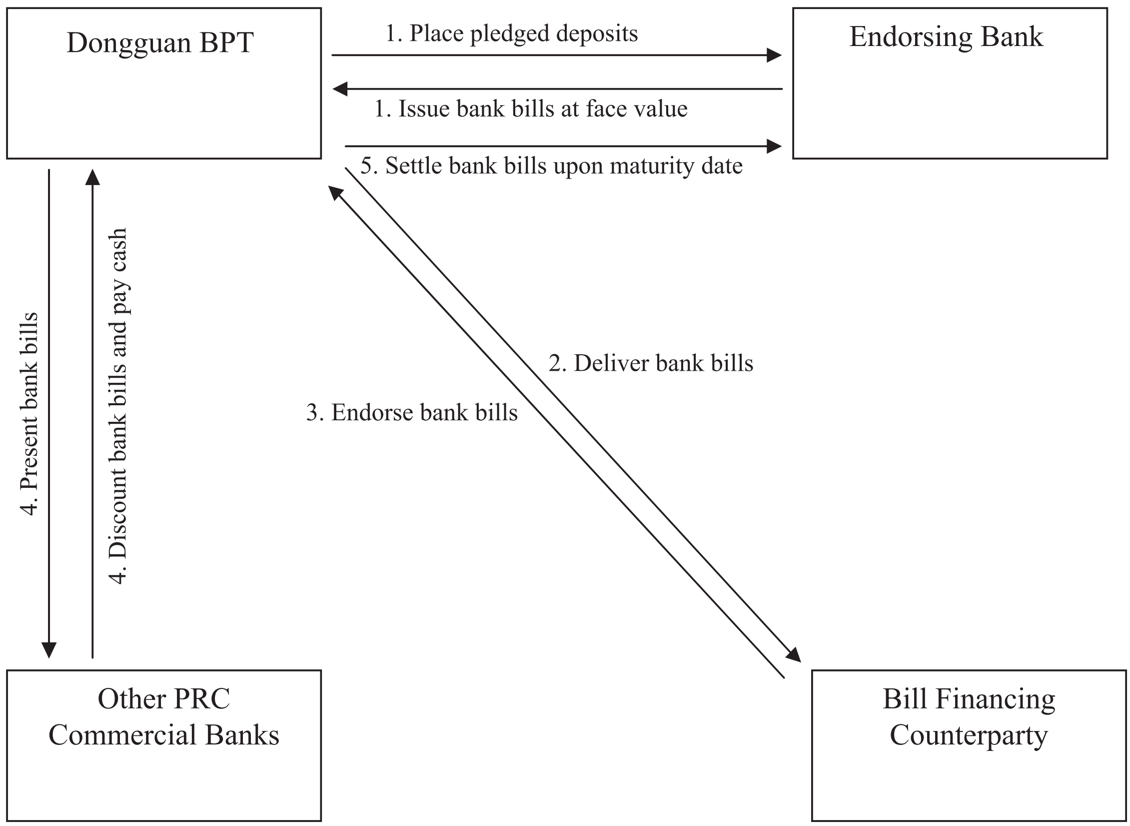
NON-COMPLIANT BILL FINANCING ARRANGEMENTS

Background

One of our PRC subsidiaries, namely Dongguan BPT, entered into financing arrangements, during the Track Record Period, which involved the issue of bank bills without underlying transactions which is not in compliance with the Negotiable Instruments Law of the PRC (中華人民共和國票據法) (the "**Negotiable Instruments Law**"). The tenure of each of these Non-compliance Bill Financing Arrangements was six months.

Under these financing arrangements, Dongguan BPT instructed the banks involved (the "**Endorsing Banks**") to issue bank bills to them at face value, and Dongguan BPT in return placed pledged deposits with the Endorsing Banks at 40% to 50% of the face value of such bank bills. Dongguan BPT subsequently delivered such bank bills to certain of our suppliers, which were related parties of our Group at the time of the Non-compliant Bill Financing Arrangements (the "**Bill Financing Counterparty(ies)**"). The Bill Financing Counterparty then endorsed the bank bills for the benefit of Dongguan BPT. At any time prior to the maturity dates of such bank bills, Dongguan BPT may present such bank bills to other PRC commercial banks and the relevant PRC commercial banks will subsequently discount the bank bills and pay cash to Dongguan BPT. Upon the maturity dates of such bank bills, Dongguan BPT was required to repay to the relevant Endorsing Bank any outstanding balance of the face value of the issued bank bills.

The diagram below illustrates the specific mechanism of the Non-compliant Bill Financing Arrangements:



The following table sets forth the total amount of bills issued under the Non-compliant Bill Financing Arrangements during the Track Record Period:

	For the year ended 31 December	
	2011	**2012**
	(HK$'000)	**(HK$'000)**
Total amount of new bills financing raised *(Note)*	497,787	198,521

Note: Such amount represents the total amount of bills under the Non-compliant Bill Financing Arrangements.

We have ceased to enter into further Non-compliant Bill Financing Arrangements since 16 July 2012.

The Non-compliant Bill Financing Arrangements were entered into in order to (i) finance our Group's operation with a view to lowering the overall interest expenses and financing costs of Dongguan BPT; (ii) maintain good business relationships between our Group and the Endorsing Banks; and (iii) obtain financing for our expansion and capital expenditure. As our internal control measures relating to the issuance and discounting of bank bills at the subsidiaries level at the time when the Non-compliant Bill Financing Arrangements occurred were insufficient, we only became aware of the non-compliance of the Negotiable Instruments Law when we carried out the statutory audit. In particular, at the time when the Non-compliant Bill Financing Arrangements occurred, we did not have (i) formalised or documented internal control measures for bill financing activities; (ii) segregation of duties in the application, approval and discounting functions for bill financing activities; (iii) training for our employees who were not aware of the requirements under the Negotiable Instruments Law, on the proper usage of bills; or (iv) a committee responsible for the monitoring of our internal control system. The Non-compliant Bill Financing Arrangements were approved by a senior manager of our finance department who is in charge of treasury functions.

Our Directors only became aware of such non-compliance when we carried out the statutory audit, upon which they instantly procured Dongguan BPT to: (i) inform the Endorsing Banks that the Non-compliant Bill Financing Arrangements were not supported by underlying transactions; (ii) cease to enter into any further Non-compliant Bill Financing Arrangements since 16 July 2012; and (iii) fully settle all outstanding balances of the Non-compliant Bill Financing Arrangements by 16 January 2013. None of our Directors or senior management was involved in the Non-compliant Bill Financing Arrangements, nor did they obtain any personal benefit directly or indirectly from the Non-compliant Bill Financing Arrangements.

The transaction amounts of all Non-compliant Bill Financing Arrangements were not material

Dongguan BPT was required to pledge deposits with the Endorsing Banks at 40% to 50% of the face value of such bank bills. The total amount of deposits we pledged to the Endorsing Banks was HK$228.3 million and HK$91.1 million for the years ended 31 December 2011 and 2012, respectively. Taking into account the pledged deposits, the net proceeds we obtained through the Non-compliant Bill Financing Arrangements were HK$269.5 million and HK$107.4 million for the years ended 31 December 2011 and 2012, respectively.

For illustrative purposes, based on our weighted-average interest rates for working capital bank loans of 7.19% and 6.96% for the years ended 31 December 2011 and 2012, respectively, we estimated that our interest expenses incurred, and saved from the Non-compliant Bill Financing Arrangements for the respective periods, were as follows:

	For the year ended 31 December	
	2011	2012
	(HK$'000, except percentages)	
Transaction amounts of new bills financing raised*(Note)*	497,787	198,521
Interest rate under working capital bank loans per annum	7.19%	6.96%
Interest that would be incurred if short-term bank loan was used	21,408	6,863
Interest on bills financing	20,653	6,580
Interest saved from the Non-compliant Bill Financing Arrangements	755	283

Note: Such amount represents the total amount of bills under the Non-compliant Bill Financing Arrangements.

The effect on our financial position had we not involved in any Non-complaint Bill Financing Arrangements is as follows:

	For the year ended 31 December	
	2011	2012
	(HK$'000, except percentages)	
New bank borrowings and new bills financing raised during the year	1,498,656	1,507,550
New bills financing raised	497,787	198,521
New bills financing raised as a percentage of new bank borrowings and new bills financing raised during the year	33.2%	13.2%

Our Directors are of the view that the Non-complaint Bill Financing Arrangements do not have any material impact on our operation because (i) we have sufficient banking facilities and financial resources generated from our operating activities to fund our operations and expansions; (ii) they only represented 33.2% and 13.2% of our total new bank borrowings raised and new bills financing raised for the year ended 31 December 2011 and 2012, respectively; and (iii) we would have been able to use deposits we pledged to the Endorsing Banks as working capital or payment for our machinery purchase prices.

Since the full settlement of all outstanding bank bills in relation to the Non-compliant Bill Financing Arrangements, our Group has demonstrated that it has sufficient working capital to support its business operations based on its operating income, credit facilities and established relationships with PRC commercial banks. Based on the foregoing, our Directors consider that our Group would have had sufficient funding for its business operations in each of the years in the Track Record Period, assuming that there were no Non-compliant Bill Financing Arrangements during the same periods.

Confirmation from relevant government authorities

In connection with the Non-compliant Bill Financing Arrangements entered into by Dongguan BPT, we have obtained a written confirmation from Dongguan Branch of the PBOC (中國人民銀行東莞市中心支行) confirming that it has not imposed any administrative penalties on Dongguan BPT or its personnel for the Non-compliant Bill Financing Arrangements. We also obtained a written confirmation from Dongguan Branch of the China Banking Regulatory Commission ("**CBRC**") (中國銀行業監督管理委員會東莞監管分局) confirming that no administrative penalty has been imposed on Dongguan BPT or its personnel for the Non-compliant Bill Financing Arrangements.

According to our PRC Legal Adviser, Dongguan Branch of the PBOC and Dongguan Branch of the CBRC have the authority to investigate and impose punishments against activities that violate financial laws and regulations in their jurisdictions and therefore are the appropriate regulatory authorities to issue the above confirmations.

Confirmation from the Endorsing Banks

The Endorsing Banks are the Dongguan branches of each of Industrial and Commercial Bank of China, CITIC Bank, Shanghai Pudong Development Bank, Agricultural Bank of China, Guangdong Development Bank, Industrial Bank Co., Ltd., Bank of China and China Merchants Bank. As at 9 September 2013, each of the Endorsing Banks had confirmed in writing that:

(1) Dongguan BPT is in good credit standing with the bank and as at the date of such confirmation letter, such Endorsing Bank has not identified any acts of fraud or cases of overdue repayments or overdue payments of bills of exchange;

(2) such Endorsing Bank has not suffered any losses as a result of the business transactions with Dongguan BPT;

(3) Dongguan BPT has informed such Endorsing bank of its issue, acquisition, transfer and/or discount of any financing bills with no real underlying transaction, all of which have been terminated as at the date of such confirmation letter; and

(4) such Endorsing Bank will not take any actions against Dongguan BPT, its shareholders, its directors based on its previous dealings with Dongguan BPT prior to the issue of such confirmation letter, and has not identified any factors that may limit Dongguan BPT's credit line and/or other business cooperation with such Endorsing Bank.

Opinion of our PRC Legal Adviser

Our PRC Legal Adviser has advised us that the Non-compliant Bill Financing Arrangements were not in compliance with the Negotiable Instruments Law (Article 10 which states that bank bills must be issued on the basis of actual underlying transactions) and certain banking regulations promulgated by the PBOC, including the Measures for the Implementation of the Administration of Negotiable Instruments* (票據管理實施辦法), the Measures for the Payment and Settlement* (支付結算辦法) and the Notice of the People's Bank of China on Certain Improvements of the Negotiable Instruments Systems* (中國人民銀行關於完善票據業務制度有關問題的通知).

Further, according to our PRC Legal Adviser, there are no specific provisions in the Negotiable Instruments Law or any rules promulgated by the PBOC or the CBRC that impose any administrative or criminal liability for the Non-compliant Bill Financing Arrangements. Therefore, there is no legal basis for any PRC regulatory authority to impose administrative or criminal liability on us, our Directors and senior management in relation to the Non-compliant Bill Financing Arrangements and indeed no such liability has been so imposed. Such opinion is also based on:

(i) the principle described in Article 3 of the PRC Criminal Law* (中華人民共和國刑法) (the "**Criminal Law**") that "a criminal act not expressly defined by law shall not be convicted and sentenced";

(ii) the principle described in Article 4 of the Administrative Penalty Law of the PRC (中華人民共和國行政處罰法) that "rules governing the offences which are subject to administrative penalty must be promulgated and rules not promulgated shall not become the basis for administrative penalty"; and

(iii) as described above, the confirmations from each of the Endorsing Banks and the relevant government authorities (namely, Dongguan Branch of the PBOC and Dongguan Branch of the CBRC).

Furthermore, the full amounts of the bank acceptance notes in respect of the Non-compliant Bill Financing Arrangements have been repaid to the Endorsing Banks, without causing any damage or loss to the Endorsing Banks. There is no dispute or civil claim between Dongguan BPT and the Endorsing Banks or any other third parties.

Based on the above, our PRC Legal Adviser is further of the opinion that based on the confirmation issued by each of the Endorsing Banks, the Non-compliant Bill Financing Arrangements did not constitute fraud as defined under Article 102 and 103 of the Negotiable Instruments Law and Article 194 of the Criminal Law.

INTERNAL CONTROL AND CORPORATE GOVERNANCE MEASURES

We have adopted or planned to adopt a series of measures to enhance our corporate governance and prevent future non-compliance of laws and regulations. We have engaged an independent consulting firm as our internal control consultant to review the design, implementation and effectiveness of the remediated controls surrounding our previous non-compliances and other internal control systems.

Non-compliant bill financing arrangements

Since the cessation of the Non-compliant Bill Financing Arrangements, we have undertaken a series of measures to prevent future reoccurrences. The key measures implemented since January 2013 include:

- established an audit committee comprising three independent non-executive Directors to review and supervise our internal control systems after the Listing. The establishment of our audit committee was formally approved by our Board on 8 May 2014;
- implemented internal guidelines and policies for approving, reporting and monitoring bill financing transactions;
- announced internally a clear policy statement that non-compliant bill financing is prohibited;
- notified senior management members that bill financing without underlying transactions will not be approved;
- proposed disciplinary actions for any breach of the new policy;
- provided training to our employees involved in financing activities about the new policy and emphasised that bill financing without support of any underlying transactions is not in compliance with relevant PRC laws and regulations;
- considered and planned to develop more measures to revise, advise and help formalise and document internal control measures for bill financing activities and our overall internal control systems; and
- we intend to engage external legal advisers after the Listing to provide training to our Directors and senior management on material changes to the relevant rules and regulations.

The internal control consultant reviewed the design and implementation of the remediated controls surrounding the issuance of bank acceptance notes at Dongguan BPT for the period from 4 January 2011 to 16 July 2012 and has reported to our Company that it has not raised any further deficiencies regarding the remediated controls relating to the issuance and discounting of bank acceptance notes at Dongguan BPT.

Section 122 of the predecessor Companies Ordinance (now Section 431 of the Companies Ordinance)

In order to prevent future breaches of the Companies Ordinance, we have taken or will take the following steps to ensure due compliance with the applicable laws under the Companies Ordinance in the future:

- Mr. Chan Yiu Sing, our chief financial officer and company secretary, will oversee the accounting and company secretarial matters of our Group to ensure compliance with

Section 122 of the predecessor Companies Ordinance (now Section 431 of the Companies Ordinance) and other applicable regulatory and compliance requirements. Mr. Chan Yiu Sing has over eight years of experience in audit, investment, accounting and finance. He has been a member of the Hong Kong Institute of Certified Public Accountants since September 2009;

- our audit committee will oversee our financial reporting and internal control procedures after the Listing;
- a detailed memorandum prepared by our legal adviser as to Hong Kong law, setting out the ongoing regulatory requirements of our Directors after the Listing has been distributed to and reviewed by our Directors;
- our Directors and senior management have attended the training provided by the Hong Kong legal adviser to our Company on the ongoing obligations and duties of directors of a listed company under the relevant laws of Hong Kong and the Listing Rules; and
- we intend to engage external Hong Kong legal advisers after the Listing to advise us on the ongoing obligations and duties of directors of a listed company, including sessions on connected transaction, code of corporate governance, dealing in securities, disclosure of inside information, notifiable transactions and dissemination of information. These external legal advisers will keep our Directors and the secretary of our Board informed of any changes and updates in the applicable laws, regulations, standards and requirements, and will provide training to our Directors and senior management on material changes to the relevant rules and regulations.

Advances to related parties

In order to ensure that any lending to related or third parties must have the appropriate level of approval from our Board and comply with the Listing Rules, we have taken or will take the following internal control measures:

- our audit committee will oversee our financial reporting and internal control procedures after the Listing;
- Mr. Chan Yiu Sing, our chief financial officer and company secretary, will oversee the accounting matters and connected and/or related party transactions of our Group to ensure compliance with the relevant Listing Rules;
- our Directors have attended the training provided by our legal adviser as to Hong Kong law on the ongoing obligations and duties (including compliance with the requirements on connected transactions) under the Listing Rules;
- announced internally a clear policy statement that lending to related or third parties is prohibited in the PRC;
- adopted a set of written internal control policies which requires all connected and/or related party transactions to be approved by our Board; and
- we intend to engage external legal advisers after the Listing to advise us on the ongoing obligations and duties under the relevant laws and regulations applicable to our

operations in Hong Kong and the PRC. These external legal advisers will also provide training to pur Directors and senior management on material changes to the relevant rules and regulations.

The internal control consultant has reviewed the design and implementation of the remediated controls surrounding the above non-compliances and has reported to our Company that it has not raised any further deficiencies regarding the remediated controls relating to such non-compliances.

After considering the above remedial actions taken by our Group and our business nature and operation scale, our Directors are satisfied that our internal control system is adequate and effective and consider that the non-compliance incidents do not have any material impact on the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules and our suitability for listing under Rule 8.04 of the Listing Rules.

Having considered the above remedial actions taken by us and our business nature and operation scale, the Sole Sponsor concurred with our Director's view that our internal control system is adequate and effective and the non-compliance incidents do not have any material impact on the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules and our suitability for listing under Rule 8.04 of the Listing Rules.