You should read this section in conjunction with our audited combined financial statements, including the notes thereto, as set out in "Appendix I — Accountants' Report" and other financial information appearing elsewhere in this prospectus. The financial statements have been prepared in accordance with HKFRS, which may differ in material respects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on the assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions will depend on a number of risks and uncertainties over which we do not have control. Please see the section headed "Risk Factors" in this prospectus for further details.

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.

Note:

^ brands are arranged in alphabetical order

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 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%.

BASIS OF PREPARATION

In preparation for the Listing, we underwent the Reorganisation, as detailed in the section headed "History, Reorganisation and Corporate Structure" in this prospectus and the section headed "Statutory and General Information — A. Further Information about our Company and our Subsidiaries — 4. Reorganisation" in Appendix V to this prospectus.

The combined statements of profit or loss and other comprehensive income and combined statements of cash flows, which include the results and cash flows of the companies now comprising our Group for the Track Record Period, have been prepared as if our Company had been the holding company of our Group and the current group structure had been in existence throughout the Track Record Period, or since their respective dates of establishment or incorporation, where there is a shorter period (except for the disposal of Deluxe Royal).

The combined statements of financial position at the end of each reporting period have been prepared to present the assets and liabilities of the companies now comprising our Group as if the current group structure had been in existence at those dates, taking into account the effective date of establishment or incorporation, where applicable (except for the disposal of Deluxe Royal).

For more information on the basis of presentation and preparation of our financial information included herein, please see the Accountants' Report included as Appendix I to this prospectus.

PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our financial condition and results of operations have been, and are expected to continue to be, affected by a number of factors, including the following:

Relationship with our customers and lingerie brand owners

Our ongoing growth and profitability are significantly dependent on our ability to maintain close and mutually beneficial relationships with lingerie brand owners and existing customers and to expand our customer portfolio to increase the demand for our products. We do not enter into any long-term agreements with our customers. As such, it is very important for us to maintain good relationships with our customers. It is also very important for us to maintain good relationships with lingerie brand owners as they may instruct their OEMs to purchase lingerie materials from us. Apart from our relationships with lingerie brand owners and our current customers, our financial results will also depend on our ability to expand our customer base and generate additional orders for our products. If we are unable to maintain stable relationships with lingerie brand owners and our customers, our revenue and financial results may be adversely affected.

Product mix

Our revenue and profitability is affected by our product mix as different products have different selling prices and profitability. Our product mix is also largely dependent on the fashion trends. During the Track Record Period, the majority of our revenue was derived from our elastic fabrics and elastic webbing segments. As we expand our lace segment, which commenced production in the second half of 2012, we also expect lace products to contribute a larger percentage of our total revenue and total profit as lace usually generates a higher gross profit margin compared to other lingerie materials. During the Track Record Period, our elastic fabrics were sold at higher average selling prices than lace and elastic webbing. As part of our effort to maximise our revenue stream, we may continuously adjust our product mix by developing and introducing new products that we believe will satisfy consumer demand. Our revenue, profitability and financial results will be affected by any changes in our product mix.

Raw materials

Our ability to source a steady supply of raw materials at reasonable prices is one of the key factors affecting our results of operations. Our principal raw materials include nylon and spandex. We procure raw materials for our internal production. Our cost of raw materials amounted to HK$632.5 million, HK$591.5 million and HK$681.6 million for the years ended 31 December 2011, 2012 and 2013, respectively, representing 66.6%, 62.0% and 59.9% of our total cost of sales for the same periods. Any increase in the cost of raw materials will affect our total cost of sales. Our performance in the future will depend on our bargaining power with our suppliers and our ability to pass such increases on to our customers. If we are unable to pass on the increased costs to our customers in the future, our business, financial results and results of operations may be materially and adversely affected.

Interest rates and finance costs

During the Track Record Period, we financed our operations and capital expenditures primarily from cash flow generated from our operating activities and bank borrowings. As commercial banks in the PRC and Hong Kong link the interest rates on their loans to benchmark lending rates published by the their local government authorities and the interest rates of our bank borrowings were floating rates during the Track Record Period, we expect that any increase in the benchmark lending rates will increase our effective interest rate and in turn increase our finance costs. As at 31 December 2011, 2012 and 2013, we had bank borrowings of HK$752.6 million, HK$861.3 million and HK$797.2 million, respectively. During the Track Record Period, the effective interest rates on our borrowings ranged from 2.34% to 9.51%. Any increase in our finance costs would have a negative impact on our financial results and results of operations. As at 31 December 2013, if our borrowing interest rate decreased/increased by 1% per annum with all other variables held constant, our profit would have increased/decreased by HK$8.0 million.

Labour costs

Our cost of sales is influenced by changes in labour costs in the PRC. In addition to inflation and other factors, the implementation of certain policies, such as the Labour Contract Law, may affect labour costs in the PRC. For the years ended 31 December 2011, 2012 and 2013, our direct labour costs accounted for 7.7%, 9.3% and 10.6% of our total cost of sales, respectively. If labour costs increase and we are unable to pass such increases on to our customers in a timely manner, our business, financial condition and results of operations may be materially and adversely affected.

Seasonality

Our business and results of operations are subject to seasonal fluctuations. We typically achieve higher revenue in the second half of a fiscal year. Revenue generated in the second half of the year accounted for approximately 56%, 57% and 56% of our total revenue for the years ended 31 December 2011, 2012 and 2013, respectively.

We believe our customers and OEMs of lingerie brand owners have higher demand for our products in the third and fourth quarters as they need to produce more lingerie products to cater to increased consumer demand during the holiday seasons in the United States and Europe such as Christmas near the year end. Our customers generally also place more purchase orders in the fourth quarter as our production facilities are closed during the Chinese New Year holiday.

Our sales, inventory levels and results of operations are likely to continue to fluctuate due to seasonality. Therefore, comparisons of sales and operating results between different periods within a single financial year may not be meaningful and should not be relied upon as indicators of our performance.

Economic conditions

The economic conditions in the United States, European Union and PRC may have a significant impact on our financial condition and results of operations. Economic conditions in these regions, including levels of consumer spending and disposable income, affect the demand for our customers' products, and in turn, demand for our products. According to the Frost & Sullivan Report, the nominal GDP of the U.S., European Union and the PRC is expected to grow at a CAGR of 4.6%, 4.2% and 9.0%, respectively, from 2012 to 2016. We believe that the economic growth in these regions will help increase demand for our products and contribute to the growth in our revenue. Any slow down or decline in economic conditions in these regions, however, may adversely affect consumer demand and our customers' demand for our products and therefore negatively affect our business, financial condition and results of operations.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

We have identified certain accounting policies that are significant to the preparation of our financial information. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. The key sources of estimations and uncertainties in the application of our accounting policies, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Note 5 to the Accountants' Report included in Appendix I in this prospectus.

When reviewing our financial information, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe involve the most significant estimates and judgments used in the preparation of our financial information. Our estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Although we believe that these estimates are reasonable, the determination of these items requires management judgments based on information and financial data that may change in future periods, and as a result of which, actual results could differ from those estimates.

Deferred taxation on investment properties

For the purposes of measuring deferred taxation arising from investment properties that are measured using the fair value model, we reviewed our investment property portfolios and concluded that our investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time and that the presumption set out in amendment to HKAS 12 is not rebutted. Therefore, in measuring our deferred taxation on investment properties, we determined that the carrying amounts of investment properties measured using the fair value model are presumed to be recovered through sale.

Allowances for inventories

We review our inventory aging analysis at the end of the reporting period and identify the slow-moving inventory items that are no longer suitable for use in production or sales. We estimate the net realisable value for such inventories based primarily on the latest invoice prices, estimated costs of completion and current market conditions. In addition, we carry out an inventory review on an item-by-item basis at the end of each reporting period and provide necessary allowance if the net realisable value is estimated to be below the cost.

Allowances of HK$6.4 million, HK$7.4 million and HK$6.3 million were made for obsolete inventories for the years ended 31 December 2011, 2012 and 2013, respectively. We believe our estimates have been accurate in the past.

Allowances for bad and doubtful debts

Our allowance for bad and doubtful debts is based on the evaluation of collectability and aging analysis of individual trade debts performed by our management. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

For the years ended 31 December 2011 and 2013, allowance for bad and doubtful debts of HK$3.1 million and HK$0.8 million were made, respectively, and for the year ended 31 December 2012, reversal of allowance for bad and doubtful debts of HK$1.1 million was recognised. We believe our estimates have been accurate in the past.

Useful life of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the relevant assets, after taking into account their estimated residual value, if any. We review the estimated useful lives of the assets annually in order to determine the amount of depreciation expenses to be recorded during the year. The useful lives are based on our historical experience with similar assets taking into account anticipated technological changes.

The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates. During the Track Record Period, we determined that there was no change to the estimated useful lives of the property, plant and equipment. Depreciation expense was HK$59.8 million, HK$84.8 million and HK$103.5 million for the years ended 31 December 2011, 2012 and 2013. We believe our estimates have been accurate in the past.

COMBINED RESULTS OF OPERATIONS

	Year ended 31 December		
	2011	2012	2013
	(HK$'000)	(HK$'000)	(HK$'000)
Revenue	1,397,104	1,403,326	1,659,447
Cost of sales	(949,496)	(954,233)	(1,136,990)
Gross profit	**447,608**	**449,093**	**522,457**
Other income	17,027	24,559	26,297
Other gains and losses	(14,031)	7,201	3,399
Selling and distribution expenses	(62,122)	(68,800)	(75,976)
Administrative expenses	(78,900)	(84,881)	(90,075)
Other expenses	(21,479)	(36,779)	(44,521)
Finance costs	(44,432)	(50,162)	(40,424)
Profit before taxation	**243,671**	**240,231**	**301,157**
Income tax expense	(37,796)	(42,180)	(56,652)
Profit for the year	**205,875**	**198,051**	**244,505**
Profit attributable to:			
Owners of our Company	180,067	174,578	214,559
Non-controlling interests	25,808	23,473	29,946
	205,875	**198,051**	**244,505**

DESCRIPTION OF THE MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, our revenue mainly consisted of sales of elastic fabrics and elastic webbing. We commenced production and sales of lace in the second half of 2012 as lace usually generates a higher gross profit margin compared to other lingerie materials. Our sales volume is mainly driven by customer demand, our average selling prices, and our ability to maintain a product mix that satisfies customers' preferences. Our sales are mainly denominated and settled in U.S. dollars, Hong Kong dollars and RMB.

The following table sets forth the revenue, percentage of total revenue, total sales volume and average selling price of each of our products for the periods indicated:

	Year ended 31 December											
	2011				2012				2013			
	Revenue (HK$'000)	% of revenue	Total sales volume ('000 m.)	Average selling price (HK$/m.)	Revenue (HK$'000)	% of revenue	Total sales volume ('000 m.)	Average selling price (HK$/m.)	Revenue (HK$'000)	% of revenue	Total sales volume ('000 m.)	Average selling price (HK$/m.)
Elastic fabrics	938,119	67.1	23,159	40.51	928,821	66.2	22,539	41.21	1,075,977	64.8	27,518	39.10
Elastic webbing	458,985	32.9	525,752	0.87	473,706	33.7	521,034	0.91	563,511	34.0	608,448	0.93
Lace	—	—	—	—	799	0.1	37	21.40	19,959	1.2	1,194	16.72
Total	**1,397,104**	**100.0**	**548,911**		**1,403,326**	**100.0**	**543,610**		**1,659,447**	**100.0**	**637,160**	

The following table sets forth a breakdown of our revenue by major currencies for the periods indicated:

	Year ended 31 December					
	2011		2012		2013	
	HK$'000	%	HK$'000	%	HK$'000	%
U. S. dollars	602,050	43.1	620,842	44.3	771,590	46.5
RMB	486,867	34.8	487,259	34.7	547,415	33.0
Hong Kong dollars	308,187	22.1	295,225	21.0	340,442	20.5
Total	**1,397,104**	**100.0**	**1,403,326**	**100.0**	**1,659,447**	**100.0**

During the Track Record Period, our sales were mainly denominated in the U.S. dollars, RMB and Hong Kong dollars. Sales denominated in RMB generally represent sales within the PRC and sales denominated in U.S. dollars and Hong Kong dollars mainly represent export sales. The ratio of our revenue by major currencies remained relatively stable during the Track Record Period.

During the Track Record Period, our products were mainly sold to lingerie brand owners or their designated OEMs. 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%.

Revenue generated from sales of elastic fabrics amounted to HK$938.1 million, HK$928.8 million and HK$1,076.0 million for the years ended 31 December 2011, 2012 and 2013, respectively, representing 67.1%, 66.2% and 64.8% of our total revenue for the same periods. Our sales volume and average selling price of elastic fabrics remained stable for the years ended 31 December 2011 and 2012 at 23.2 million m. and 22.5 million m., respectively, and HK$40.51 per metre and HK$41.21 per metre, respectively. The revenue generated from our elastic fabrics segment increased from HK$928.8 million for the year ended 31 December 2012 to HK$1,076.0 million for the year ended 31 December 2013 primarily as a result of the increase in sales volume from 22.5 million m. to 27.5 million m. over the same period caused by the lowering of our selling price in 2013 for certain customers who made bulk purchases for our elastic fabrics.

Revenue generated from sales of elastic webbing increased from HK$459.0 million for the year ended 31 December 2011 to HK$473.7 million for the year ended 31 December 2012 primarily as a result of the slight increase in the average selling price for our elastic webbing segment. For the years ended 31 December 2011 and 2012, our average selling price of elastic webbing slightly increased by 4.6% from HK$0.87 to HK$0.91 due to changes in product mix. The revenue generated from the sales of elastic webbing increased from HK$473.7 million for the year ended 31 December 2012 to HK$563.5 million for the year ended 31 December 2013 primarily as a result of the increase in sales volume from 521.0 million m. to 608.4 million m. over the same period caused by the increase in demand for our elastic webbing as a result of improved market sentiment in 2013.

We launched our lace products in the second half of 2012 and generated sales of HK$0.8 million and HK$20.0 million for the year ended 31 December 2012 and 2013, respectively. The change in the average selling price of lace from HK$21.4 per metre for year ended 31 December 2012 to HK$16.7 per metre for the year ended 31 December 2013 was primarily due to the different product mix in our lace segment.

Cost of sales

Our cost of sales mainly comprises of cost of raw materials, manufacturing overheads, direct labour and sub-contracting fee. The following table sets forth a breakdown of our cost of sales for the periods indicated:

	Year ended 31 December					
	2011		2012		2013	
	(HK$'000)	%	(HK$'000)	%	(HK$'000)	%
Raw materials	632,509	66.6	591,457	62.0	681,596	59.9
Manufacturing overheads	228,498	24.1	258,772	27.1	320,130	28.2
Direct labour	73,641	7.7	88,372	9.3	121,048	10.6
Sub-contracting fee	14,848	1.6	15,632	1.6	14,216	1.3
Total	**949,496**	**100.0**	**954,233**	**100.0**	**1,136,990**	**100.0**

The increase in our costs of sales from HK$949.5 million for the year ended 31 December 2011 to HK$954.2 million for the year ended 31 December 2012 was primarily due to the increase in our direct labour costs and manufacturing overheads partially offset by the decrease in our cost of raw materials. The increase in our costs of sales from HK$954.2 million for the year ended 31 December 2012 to HK$1,137.0 million for the year ended 31 December 2013 was primarily due to the increase in our cost of raw materials, manufacturing overheads and direct labour costs.

Our cost of raw materials represented 66.6%, 62.0% and 59.9% of our total cost of sales for the years ended 31 December 2011, 2012 and 2013, respectively. The major raw materials used in our production are nylon and spandex. The decrease in our cost of raw materials from HK$632.5 million for the year ended 31 December 2011 to HK$591.5 million for the year ended 31 December 2012 was primarily due to the decrease in the market prices of nylon and spandex in 2012. The increase in our cost of raw materials from HK$591.5 million for the year ended 31 December 2012 to HK$681.6 million for the year ended 31 December 2013 corresponds to the increase in our total sales volume from 543.6 million m. to 637.2 million m. over the same period.

Direct labour represented 7.7%, 9.3% and 10.6% of our total cost of sales for the years ended 31 December 2011, 2012 and 2013, respectively. Our direct labour costs consisted mainly of salaries and benefits for employees in our production. The increase in our direct labour costs over the Track Record Period was primarily due to the increase in the average salary of our production workers.

Our manufacturing overheads represented 24.1%, 27.1% and 28.2% of our total cost of sales for the years ended 31 December 2011, 2012 and 2013, respectively. Our manufacturing overheads mainly comprised our utilities costs, depreciation and indirect labour costs. The increase in our manufacturing overheads from HK$228.5 million for year ended 31 December 2011 to HK$258.8 million for the year ended 31 December 2012 was primarily due to the increase in our depreciation as a result of the use of additional machineries to cater our expanded scale of operation. The increase in our manufacturing overheads from HK$258.8 million for the year ended 31 December 2012 to HK$320.1 million for the year ended 31 December 2013 was primarily due to the increase in our total sales volume.

Our sub-contracting fee represented our outsource cost for the manufacture of our products during peak seasons.

Cost of sales by product

The following table sets forth a breakdown of our cost of sales by product for the periods indicated:

	Year ended 31 December					
	2011		2012		2013	
	(HK$'000)	%	(HK$'000)	%	(HK$'000)	%
Elastic fabrics	630,830	66.4	656,080	68.8	770,643	67.8
Elastic webbing	318,666	33.6	293,363	30.7	350,142	30.8
Lace	—	—	4,790	0.5	16,205	1.4
	949,496	**100.0**	**954,233**	**100.0**	**1,136,990**	**100.0**

During the Track Record Period, our cost of sales by product as a percentage of our total cost of sales remained relatively stable.

Gross profit and gross profit margin

The following table sets forth our gross profit and gross profit margin by product for the periods indicated:

	Year ended 31 December					
	2011		2012		2013	
	Gross Profit (HK$'000)	Gross Profit Margin (%)	Gross Profit (HK$'000)	Gross Profit Margin (%)	Gross Profit (HK$'000)	Gross Profit Margin (%)
Elastic fabrics	307,289	32.8	272,741	29.4	305,334	28.4
Elastic webbing	140,319	30.6	180,343	38.1	213,369	37.9
Lace	—	—	(3,991)	-499.5	3,754	18.8
Total	**447,608**	**32.0**	**449,093**	**32.0**	**522,457**	**31.5**

Our gross profit increased from HK$447.6 million for the year ended 31 December 2011 to HK$449.1 million for the year ended 31 December 2012 and further to HK$522.5 million for the year ended 31 December 2013. The increase in our gross profit during the Track Record Period was primarily due to the increase in our revenue. Our overall gross profit margin remained relatively stable during the Track Record Period.

The decrease in the gross profit margin of elastic fabrics from 32.8% for the year ended 31 December 2011 to 29.4% for the year ended 31 December 2012 was primarily due to the increase in our cost of sales of elastic fabrics from HK$630.8 million to HK$656.1 million during the same period as a result of (i) the increase in our manufacturing overheads due to the increase in depreciation caused by the use of additional machineries; (ii) the increase in our direct labour costs; and (iii) partially offset by the decrease in our cost of raw materials as a result of the decrease in the market price of nylon and spandex in 2012. Our gross profit margin of our elastic fabrics segment remained relatively stable at 28.4% for the year ended 31 December 2013.

The increase in the gross profit margin of our elastic webbing segment from 30.6% for the year ended 31 December 2011 to 38.1% for the year ended 31 December 2012 was primarily due to (i) the increase in average selling price for our elastic webbing segment from HK$0.87 per metre for the year ended 31 December 2011 to HK$0.91 per metre for the year ended 31 December 2012; and (ii) the decrease in our cost of sales for our elastic webbing segment from HK$318.7 million to HK$293.4 million over the same period due to the decrease in our cost of raw materials as a result of the decrease in the market prices of nylon and spandex in 2012. Our gross profit margin of our elastic webbing segment remained relatively stable at 37.9% for the year ended 31 December 2013.

In the second half of 2012, we expanded our operations into the lace market which had a gross loss margin of 499.5% and a gross profit margin of 18.8% for the years ended 31 December 2012 and 2013, respectively. Our gross loss for the year ended 31 December 2012 was mainly a result of the depreciation we incurred for our lace machineries and our gross profit for the year ended 31 December 2013 was mainly a result of the increase in sales of our lace products.

Other income

Our other income mainly consisted of government grants, financial guarantee income, sales of scrap material income, bank interest income and others, which primarily consisted of compensation from our machinery suppliers for delayed delivery for the year ended 31 December 2012. Our financial guarantee income represents the release of the financial guarantee liability recognised in respect of the financial guarantee we provided in favour of certain related parties.

The following table sets forth the breakdown of our other income for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	(HK$'000)	(HK$'000)	(HK$'000)
Government grants	4,304	1,822	6,909
Financial guarantee income	1,572	5,953	6,874
Sales of scrap material income	4,009	5,206	6,526
Bank interest income	4,367	5,561	4,994
Rental income	45	153	311
Interest income from a related company	—	895	—
Others	2,730	4,969	683
Total	**17,027**	**24,559**	**26,297**

The increase in our other income from HK$17.0 million for the year ended 31 December 2011 to HK$24.6 million for the year ended 31 December 2012 was primarily due to (i) increase in financial guarantee income; and (ii) the increase in our compensation from our machinery suppliers for the delayed delivery of machines, sale of scrap materials and bank interest income partially offset by the decrease in one-off government grants, which were given to us at the discretion of the PRC government in relation to our innovative capabilities. The increase in our other income from HK$24.6 million for the year ended 31 December 2012 to HK$26.3 million for the year ended 31 December 2013 was primarily due to the increase in one-off government grants, which were given to us at the discretion of the PRC government and income from the sale of scrap materials. Our Directors confirm that as at the Latest Practicable Date, there were no unfulfilled conditions in relation to such one-off government grants granted to us during the Track Record Period.

Other gains and losses

Our other gains and losses mainly consisted of change in fair value of investment properties, change in fair value of derivative financial instruments and foreign exchange gain/(loss) during the Track Record Period:

The following table sets forth the breakdown of our other gains and losses for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	(HK$'000)	(HK$'000)	(HK$'000)
Change in fair value of investment properties	3,911	1,728	5,019
Change in fair value of derivative financial instruments	(663)	7,261	3,970
Change in fair value of held-for–trading investments	4	(28)	56
(Allowance for) reversal of bad and doubtful debts	(3,083)	1,066	(789)
Loss on disposal of property, plant and equipment	(84)	(27)	(476)
Foreign exchange gain	2,094	1,083	6,827
Foreign exchange loss	(16,210)	(3,882)	(11,231)
Gain on disposal of a subsidiary	—	—	23
Total	**(14,031)**	**7,201**	**3,399**

We recorded other losses of HK$14.0 million and other gains of HK$7.2 million for the years ended 31 December 2011 and 2012, respectively, primarily as a result of (i) lower net foreign exchange losses recognised in 2012; (ii) the increase in the change in fair value of derivative financial instruments; and (iii) reversal of bad and doubtful debts. The change in fair value of derivative financial instruments arose from the change in the fair value of our foreign exchange contracts. For further details, please refer to the section headed "Business — Foreign Exchange Contracts" in this prospectus. Our lower net foreign exchange losses for the year ended 31 December 2011 as compared to the year ended 31 December 2012 was primarily due to the relatively stable exchange rate between Hong Kong dollars/U.S. dollars and RMB in 2012. The decrease in our other gains from HK$7.2 million for the year ended 31 December 2012 to HK$3.4 million for the year ended 31 December 2013 was primarily due to the decrease in the change in fair value of derivative financial instruments and the increase in net foreign exchange loss due to the appreciation of RMB; partially offset by the increase in the change in fair value of investment properties due to the appreciation of property price in the PRC.

Selling and distribution expenses

Selling and distribution expenses mainly consists of staff costs, transportation, marketing and promotion expenses and other selling and distribution expenses. For the years ended 31 December 2011, 2012 and 2013, our selling expenses represented 4.4%, 4.9% and 4.6% of our total revenue, respectively.

The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	(HK$'000)	(HK$'000)	(HK$'000)
Staff costs	25,159	27,774	32,252
Transportation	17,904	18,962	19,779
Marketing and promotion expenses	4,347	4,242	5,025
Motor vehicle expenses	2,806	3,264	3,810
Travelling expense	2,293	3,042	3,381
Entertainment expenses	3,431	3,095	3,238
Insurance	796	1,900	2,058
Others	5,386	6,521	6,433
Total	**62,122**	**68,800**	**75,976**

The increase in our selling and distribution expenses from HK$62.1 million for the year ended 31 December 2011 to HK$68.8 million for the year ended 31 December 2012 and further to HK$76.0 million for the year ended 31 December 2013 were primarily due to the increase in our staff costs and transportation cost as a result of our expansion and increase in sales.

The increase in our staff costs from HK$25.2 million for the year ended 31 December 2011 to HK$27.8 million for the year ended 31 December 2012 and further to HK$32.3 million for the year ended 31 December 2013 were primarily due to the increase in the average salary of our employees.

The increase in our transportation costs from HK$17.9 million for the year ended 31 December 2011 to HK$19.0 million for the year ended 31 December 2012 and further to HK$19.8 million for the year ended 31 December 2013 were primarily due to the increase in the fees we paid to third party logistics service providers for the delivery of our products as a result of the increase in sales volume.

Our marketing and promotion expenses primarily represented our expenses for attending lingerie exhibitions and our motor vehicle expenses primarily represented expenses we incurred for our delivery team.

Administrative expenses

Administrative expenses mainly consists of staff costs, depreciation and amortisation, bank charges and other administration expenses. For the years ended 31 December 2011, 2012 and 2013, our administrative expenses represented 5.6%, 6.0% and 5.4% of our total revenue, respectively.

The follow table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	(HK$'000)	(HK$'000)	(HK$'000)
Staff costs	42,276	44,583	49,866
Depreciation and amortisation	5,103	5,473	5,361
Bank charges	4,184	4,895	5,087
Other taxes and surcharges	3,272	3,395	3,920
Motor vehicle expenses	2,443	3,121	3,835
Rental expenses	3,774	3,117	3,448
Professional fee	3,210	3,249	2,959
Utilities	1,738	2,960	2,690
Travelling and entertainment	1,851	2,762	2,647
Insurance	1,149	1,027	1,536
Others	9,900	10,299	8,726
Total	**78,900**	**84,881**	**90,075**

The increase in our administrative expenses from HK$78.9 million for the year ended 31 December 2011 to HK$84.9 million for the year ended 31 December 2012 and further to HK$90.1 million for the year ended 31 December 2013 was primarily due to the expanded scale of our operations.

Other expenses

Other expenses primarily consists of materials costs, staff costs and depreciation in relation to our research and development and our expenses in relation to the Global Offering recognised.

The following table sets forth a breakdown of our other operating expenses for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	(HK$'000)	(HK$'000)	(HK$'000)
Research and development expenses			
Materials costs	9,786	17,409	16,556
Staff costs	7,458	8,929	11,887
Depreciation	3,254	8,174	7,075
Others	981	1,773	2,580
Sub-total	**21,479**	**36,285**	**38,098**
Listing expenses	—	494	6,423
Total	**21,479**	**36,779**	**44,521**

The increase in our other expenses from HK$21.5 million for the year ended 31 December 2011 to HK$36.8 million for the year ended 31 December 2012 was primarily due to the increase in our materials costs and increase in our depreciation. The increase in materials costs from HK$9.8 million for the year ended 31 December 2011 to HK$17.4 million for the year ended 31 December 2012 and the increase in depreciation from HK$3.3 million to HK$8.2 million over the same period were primarily the results of the increase in the usage of materials and machineries for our research and development. The increase in our other expenses from HK$36.8 million for the year ended 31 December 2012 to HK$44.5 million for the year ended 31 December 2013 was primarily due to the increase in our expenses in relation to the Global Offering recognised and increase in our staff costs as we hired additional personnel to strengthen our research and development capabilities.

Finance costs

Our finance costs represent interest expenses from bank borrowings, net of interest expenses capitalised. The increase in our finance costs from HK$44.4 million for the year ended 31 December 2011 to HK$50.2 million for the year ended 31 December 2012 was primarily due to the increase in our bank borrowings to fund our capital expenditures and expansion. Our finance costs decreased from HK$50.2 million for the year ended 31 December 2012 to HK$40.4 million for the year ended 31 December 2013 as we refinanced part of our bank borrowings in the PRC to Hong Kong, which has a lower interest rate.

Income tax expense

The following table sets forth a breakdown of our income tax expense for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	(HK$'000)	(HK$'000)	(HK$'000)
Current tax:			
Hong Kong Profits Tax	20,314	13,442	17,159
EIT	19,431	23,930	35,927
The PRC withholding tax	—	5,000	—
PRC EIT under-provision in prior years	—	—	2,229
	39,745	42,372	55,315
Deferred tax	(1,949)	(192)	1,337
Total	**37,796**	**42,180**	**56,652**

Hong Kong Profits Tax was calculated at 16.5% on the estimated assessable profit for the years ended 31 December 2011, 2012 and 2013.

Under the EIT Law and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa (2007) No. 39), the tax concession of Dongguan BPT (as set out below) is still applicable under the EIT Law.

Pursuant to the relevant laws and regulations in the PRC, Dongguan BPT is entitled to an exemption from EIT for the two years starting from its first profit-making year, followed by a 50% tax relief for the next three years. The tax charge provided has taken into account these tax incentives. Dongguan BPT commenced its first profit making year for the calendar year ended 31 December 2008 and accordingly, Dongguan BPT was exempted from EIT for the calendar years ended 31 December 2008 and 2009, the applicable tax rate for the calendar years ended 31 December 2010, 2011 and 2012 was 12.5%. Since 2010, Dongguan BPT has been granted the status of "High and New Technology Enterprise" and completed the relevant filing requirements with the competent tax authorities in 2013. Hence, Dongguan BPT is subject to the preferential tax treatment and the applicable tax rate for the year ended 31 December 2013 was 15%.

Under the EIT Law, PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from a PRC subsidiary to non-PRC tax resident group entity in Hong Kong in respect of profits generated after 1 January 2008 shall be subject to the withholding tax at 10%, unless the Hong Kong company can be approved to enjoy a reduced rate of 5% pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income.

We are not subject to profit tax in the Cayman Islands and BVI as we had no assessable income arising in or derived from these respective jurisdictions during the Track Record Period.

The increase in our effective tax rate from 15.5% for the year ended 31 December 2011 to 17.6% for the year ended 31 December 2012 was primarily due to the withholding tax we incurred in relation to the declaration of dividends by our PRC subsidiary in 2012. The increase in our effective tax rate from 17.6% for the year ended 31 December 2012 to 18.8% for the year ended 31 December 2013 was primarily due to the change in the preferential tax scheme which Dongguan BPT enjoyed.

Our Directors confirm that, pursuant to the confirmation letters with respect to our PRC subsidiaries issued by the relevant PRC and local tax bureaus on 10 December 2013 and 13 December 2013, each of our PRC subsidiaries has made all the required tax filings under the relevant tax laws and regulations in the PRC, has paid all outstanding tax liabilities and is not subject to any administrative punishment or potential administrative punishment with PRC tax authorities.

PERIOD TO PERIOD COMPARISON

Year ended 31 December 2013 compared to year ended 31 December 2012

Revenue

Our revenue increased by HK$256.1 million, or 18.3%, from HK$1,403.3 million for the year ended 31 December 2012 to HK$1,659.4 million for the year ended 31 December 2013. The increase was primarily due to (i) the increase in the sales of our elastic fabrics as a result of the increase in sales volume of our elastic fabrics caused by the lowering of our selling price in 2013 for certain customers who made bulk purchases; (ii) increase in sales of elastic webbing as a result of increase in sales volume caused by the improved market sentiment; and (iii) the expansion of our lace segment in 2013.

Cost of sales

Our cost of sales increased by HK$182.8 million, or 19.2%, from HK$954.2 million for the year ended 31 December 2012 to HK$1,137.0 million for the year ended 31 December 2013 primarily due to (i) the increase in our cost of raw materials as a result of the increase in our total sales volume; (ii) the increase in our manufacturing overheads; and (iii) the increase in our direct labour costs as a result of the increase in the average salary of our production workers.

Gross profit and gross profit margin

Our gross profit increased by HK$73.4 million, or 16.3%, from HK$449.1 million for the year ended 31 December 2012 to HK$522.5 million for the year ended 31 December 2013 primarily due to the increase in our sales, in particular the sales of our elastic fabrics. Our gross profit margin remained stable at 32.0% and 31.5% for the years ended 31 December 2012 and 2013, respectively.

Other income

Our other income increased by HK$1.7 million, or 7.1%, from HK$24.6 million for the year ended 31 December 2012 to HK$26.3 million for the year ended 31 December 2013 primarily due to the increase in one-off government grants given at the sole discretion of the PRC government and income from the sale of scrap materials.

Other gains and losses

Our other gains decreased by HK$3.8 million, or 52.8%, from HK$7.2 million for the year ended 31 December 2012 to HK$3.4 million for the year ended 31 December 2013 primarily due to decrease in the change in fair value of derivative financial instruments and increase in net foreign exchange loss due to the appreciation of the RMB; partially offset by the increase in the change in fair value of investment properties due to the appreciation of property prices in the PRC.

Selling and distribution expenses

Our selling and distribution expenses increased by HK$7.2 million, or 10.4%, from HK$68.8 million for the year ended 31 December 2012 to HK$76.0 million for the year ended 31 December 2013 primarily as a result of (i) the increase in our staff costs due to the increase in the average salary of our employees; and (ii) the increase in our transportation costs due to the increase in the fees we paid to third party logistics service providers for the delivery of our products as a result of the increase in our sales volume.

Administrative expenses

Our administrative expenses increased by HK$5.2 million, or 6.2%, from HK$84.9 million for the year ended 31 December 2012 to HK$90.1 million for the year ended 31 December 2013 primarily as a result of our expanded scale of operation and the increase in our staff costs due to the increase in the average salary of our employees.

Other expenses

Our other expenses increased by HK$7.7 million, or 21.1%, from HK$36.8 million for the year ended 31 December 2012 to HK$44.5 million for the year ended 31 December 2013 primarily as a result of the increase in our expenses in relation to the Global Offering recognised from HK$0.5 million for the year ended 31 December 2012 to HK$6.4 million for the year ended

31 December 2013 and increase in our staff costs as we hired additional personnel to strengthen our research and development capabilities.

Finance costs

Our finance costs decreased by HK$9.8 million, or 19.4%, from HK$50.2 million for the year ended 31 December 2012 to HK$40.4 million for the year ended 31 December 2013 as we refinance part of our bank borrowings in the PRC to Hong Kong, which has a lower interest rate.

Income tax expense

Our income tax expense increased by HK$14.5 million, or 34.3%, from HK$42.2 million for the year ended 31 December 2012 to HK$56.7 million for the year ended 31 December 2013 primarily as a result of (i) the increase in our profit before tax; and (ii) the increase in our effective tax rate from 17.6% for the year ended 31 December 2012 to 18.8% for the year ended 31 December 2013 due to the change in the preferential tax treatment Dongguan BPT enjoyed.

Profit for the year

As a result of the foregoing factors, our profit for the year increased by HK$46.4 million, or 23.5%, from HK$198.1 million for the year ended 31 December 2012 to HK$244.5 million for the year ended 31 December 2013. Our net profit margin increased from 14.1% for the year ended 31 December 2012 to 14.7% for the year ended 31 December 2013 primarily as a result of the decrease in our finance cost.

Year ended 31 December 2012 compared to year ended 31 December 2011

Revenue

Our revenue slightly increased from HK$1,397.1 million for the year ended 31 December 2011 to HK$1,403.3 million for the year ended 31 December 2012, as a result of the then market conditions in 2012.

Cost of sales

Cost of sales increased by HK$4.7 million, or 0.5%, from HK$949.5 million for the year ended 31 December 2011 to HK$954.2 million for the year ended 31 December 2012 primarily as a result of (i) the increase in our manufacturing overheads due to the increase in our depreciation; (ii) the increase in our direct labour costs due to the increase in the average salary of our employees; and (iii) partially offset by the decrease in our cost of raw materials due to the decrease in the market price of nylon and spandex in 2012.

Gross profit and gross profit margin

Our gross profit and gross profit margin remained relatively stable at HK$447.6 million and 32.0% for the year ended 31 December 2011 and HK$449.1 million and 32.0% for the year ended 31 December 2012, respectively.

Other income

Our other income increased by HK$7.6 million, or 44.2%, from HK$17.0 million for the year ended 31 December 2011 to HK$24.6 million for the year ended 31 December 2012 primarily as a result of (i) an increase in financial guarantee income; (ii) the increase in our compensation from our machinery suppliers for the delayed delivery of machines; (iii) an increase in sale of scrap materials; and (iv) an increase in bank interest income, partially offset by the decrease in government grants.

Other gains and losses

Our other gains and losses changed from other losses of HK$14.0 million for the year ended 31 December 2011 to other gains of HK$7.2 million for the year ended 31 December 2012 primarily as a result of the lower net foreign exchange losses recognised in 2012, and the reversal of bad and doubtful debts.

Selling and distribution expenses

Our selling and distribution expenses increased by HK$6.7 million, or 10.7%, from HK$62.1 million for the year ended 31 December 2011 to HK$68.8 million for the year ended 31 December 2012 primarily as a result of (i) the increase in our staff costs due to the increase in the average salary of our employees; and (ii) the increase in our transportation costs due to the increase in the fees we paid to third party logistics service providers for the delivery of our products to our customers.

Administrative expenses

Our administrative expenses increased by HK$6.0 million, or 7.6%, from HK$78.9 million for the year ended 31 December 2011 to HK$84.9 million for the year ended 31 December 2012 primarily as a result of the expanded scale of our operations.

Other expenses

Our other expenses increased by HK$15.3 million, or 71.2%, from HK$21.5 million for the year ended 31 December 2011 to HK$36.8 million for the year ended 31 December 2012 primarily as a result of (i) the increase in our materials costs as a result of the increase in usage of materials for our research and development; and (ii) the increase in depreciation as a result of the use of additional machineries for our research and development.

Finance costs

Our finance costs increased by HK$5.8 million, or 12.9%, from HK$44.4 million for the year ended 31 December 2011 to HK$50.2 million for the year ended 31 December 2012 primarily as a result of the increase in our bank borrowings from HK$752.6 million as at 31 December 2011 to HK$861.3 million as at 31 December 2012 to fund our capital expenditure and expansion.

Income tax expense

Our income tax expense increased by HK$4.4 million, or 11.6%, from HK$37.8 million for the year ended 31 December 2011 to HK$42.2 million for the year ended 31 December 2012 primarily as a result of (i) the increase in our profit before tax; and (ii) the increase in our effective tax rate from 15.5% for the year ended 31 December 2011 to 17.6% for the year ended 31 December 2012 due to the withholding tax we incurred in relation to the declaration of dividends by our PRC subsidiary in 2012.

Profit for the year

As a result of the foregoing factors, our profit for the year decreased by HK$7.8 million, or 3.8%, from HK$205.9 million for the year ended 31 December 2011 to HK$198.1 million for the year ended 31 December 2012. Net profit margin slightly declined from 14.7% for the year ended 31 December 2011 to 14.1% for the year ended 31 December 2012 primarily as a result of the increase in our effective tax rate.

NET CURRENT (LIABILITIES)/ASSETS

The table below sets forth our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 31 March
	2011	2012	2013	2014
	HK$ '000	HK$ '000	HK$ '000	HK$ '000
				(unaudited)
Current assets				
Inventories	231,418	230,631	317,873	310,929
Prepaid lease payments	988	995	1,013	1,014
Trade and bills receivables	393,473	382,553	453,500	374,831
Other receivables, deposits and prepayments	48,500	25,368	15,525	18,782
Held-for-trading investments	826	1,419	—	—
Amount due from a director	1,448	413	—	—
Amounts due from related companies	13,789	92,427	—	—
Tax recoverable	436	8,297	—	—
Derivative financial instruments	—	2,174	1,511	1,486
Pledged bank deposits	172,380	187,926	96,107	109,558
Bank balances and cash	125,181	147,686	97,536	71,293
	988,439	**1,079,889**	**983,065**	**887,893**
Current liabilities				
Trade payables	77,874	73,162	107,393	86,270
Bills payable	127,642	169,439	202,316	199,775
Other payables and accrued charges	82,256	104,685	131,078	122,245
Amounts due to directors	103,906	58,141	—	—
Amounts due to related companies	88,697	16,571	—	—
Obligations under finance leases	120,908	127,526	37,164	32,772
Bank borrowings	732,793	845,088	345,660	313,273
Derivative financial instruments	814	—	—	—
Financial guarantee liability	24,844	37,051	11,623	10,533
Tax payable	32,454	13,555	17,660	19,744
	1,392,188	**1,445,218**	**852,894**	**784,612**
Net current (liabilities) assets	**(403,749)**	**(365,329)**	**130,171**	**103,281**

As at 31 December 2011 and 31 December 2012, we had net current liabilities of HK$403.7 million and HK$365.3 million, respectively, mainly as a result of a relatively high level of bank borrowings and obligations under the finance leases classified as current liabilities. As at 31 December 2013, we had net current assets of HK$130.2 million as we refinanced our bank borrowings with a syndicated loan which was classified as non-current liabilities. Our net current assets decreased to HK$103.3 million as at 31 March 2014 primarily as a result of the deposit paid for the acquisition of property, plant and equipment classified as non-current assets for the three months ended 31 March 2014.

Inventories

Our inventories consisted of raw materials, work in progress and finished goods. The raw materials we use mainly include nylon and spandex.

The following table sets forth a summary of our inventory balances as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	HK$ '000	HK$ '000	HK$ '000
Raw materials	122,293	106,263	143,446
Work in progress	63,122	73,419	87,545
Finished goods	46,003	50,949	86,882
Total	**231,418**	**230,631**	**317,873**

Our inventory remained stable at HK$231.4 million and HK$230.6 million as at 31 December 2011 and 2012, respectively. The increase in our inventory from HK$230.6 million as at 31 December 2012 to HK$317.9 million as at 31 December 2013 as we increased our raw material and work in progress to cope with the expected increase in demand of our products.

The following table sets forth our average inventory turnover days for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
Average inventory turnover days(Note)	65.2	88.4	88.0

Note: average inventory turnover days for a certain period is derived by dividing the arithmetic mean of the opening and closing balances of inventory by cost of sales for the relevant period and then multiplied by 365 days.

The increase in our average inventory turnover days from 65.2 days for the year ended 31 December 2011 to 88.4 days for the year ended 31 December 2012 was primarily as a result of the low opening inventory balance in 2011 as our inventory only included our elastic fabrics segment at that time. Our inventory subsequently increased through the acquisition of the assets of Dongguan Runda in 2011. For further details, please refer to the section headed "History, Reorganisation and Corporate Structure — Our business development" in this prospectus. Subsequent to the acquisition of the assets of Dongguan Runda, our inventory also consisted of inventory for the elastic webbing segment in addition to the elastic fabrics segment and, as a result, our ending inventory balance of 2011 increased. Our average inventory turnover days remained stable at 88.0 days for the year ended 31 December 2013.

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 provisions for our 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.

As at the Latest Practicable Date, approximately HK$263.7 million, or approximately 83.0%, of our inventories as at 31 December 2013 had been utilised or sold.

Trade and bills receivables

Our trade and bills receivables mainly represented receivables from sales to our customers.

The following table sets forth balances of our trade and bills receivables as at the dates indicated:

	As at 31 December		
	2011	**2012**	**2013**
	HK$ '000	**HK$ '000**	**HK$ '000**
Trade receivables	386,779	381,637	451,117
Bills receivables	10,130	2,692	4,159
Less: Allowance for bad and doubtful debts	(3,436)	(1,776)	(1,776)
Total	**393,473**	**382,553**	**453,500**

Our trade and bills receivables decreased from HK$393.5 million as at 31 December 2011 to HK$382.6 million as at 31 December 2012 primarily as a result of the decrease in the bills we received from our customers from HK$10.1 million as at 31 December 2011 to HK$2.7 million as at 31 December 2012. The increase in our trade and bills receivables from HK$382.6 million as at 31 December 2012 to HK$453.5 million as at 31 December 2013 was primarily due to the increase in our sales.

The following table sets forth the aging analysis of our trade and bills receivables as at the dates indicated:

	As at 31 December		
	2011	**2012**	**2013**
	HK$ '000	**HK$ '000**	**HK$ '000**
Aging analysis of trade and bills receivables			
Within three months	356,082	365,366	412,468
Three to six months	36,194	14,992	35,749
Over six months	1,197	2,195	5,283
Total	**393,473**	**382,553**	**453,500**

The following table sets forth our average trade and bills receivables turnover days for the periods indicated:

	Year ended 31 December		
	2011	**2012**	**2013**
Average trade and bills receivables turnover days*(Note)*	87.2	100.9	91.9

Note: average trade and bills receivables turnover days for a certain period is derived by dividing the arithmetic mean of the opening and closing balances of trade and bills receivables by revenue for the relevant period and then multiplied by 365 days.

Our average trade and bills receivables turnover days increased from 87.2 days for the year ended 31 December 2011 to 100.9 days for the year ended 31 December 2012 primarily as a result of the low opening trade and bills receivables balance in 2011 as we only record sales of elastic fabrics in 2010 and we began to record sales of elastic webbing after we acquired the assets of Dongguan Runda in 2011. For further details, please refer to the section headed "History, Reorganisation and Corporate Structure — Our business development" in this prospectus. Our average trade and bills receivables turnover days decreased from 100.9 days for the year ended 31 December 2012 to 91.9 days for the year ended 31 December 2013 due to our efforts to collect receivables more quickly from our customers. Our average trade receivables turnover days was within our credit policy.

Before accepting any new customers, we assess the potential customer's credit quality by evaluating their historical credit records and define credit limits for each customer. We regularly review the recoverability and credit limit of our existing customers. We typically grant credit periods of 30 to 90 days from the date of issuance of a monthly statement for sales delivered in that month and we generally require our new customers to settle the purchase price before we commence production. We grant credit periods to our customers on a case-by-case basis primarily based on customer type and the customers' payment record with us if it is a recurring customer and may extend the credit period to certain customers.

We made allowances for bad and doubtful debts of HK$3.1 million and HK$0.8 million for the years ended 31 December 2011 and 2013, respectively, and reversal for bad and doubtful debts of HK$1.1 million for the year ended 31 December 2012.

As at the Latest Practicable Date, approximately HK$432.9 million, or approximately 95.5%, of our trade and bills receivables as at 31 December 2013 had been settled.

Other receivables, deposits and prepayments

Our other receivables, deposits and prepayments primarily consisted of other receivables, which primarily represents receivables from staff, and prepayments to our suppliers.

The following table sets for the balances of our other receivables, deposits and prepayments as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	(HK$'000)	(HK$'000)	(HK$'000)
Other receivables	7,841	8,220	6,307
Prepayments	3,902	4,552	5,589
Other tax recoverable	31,505	6,166	2,091
Deposit paid	5,252	6,430	1,538
Total	**48,500**	**25,368**	**15,525**

Our other receivables, deposits and prepayments decreased by HK$23.1 million from HK$48.5 million as at 31 December 2011 to HK$25.4 million as at 31 December 2012 primarily as a result of the decrease in our other tax recoverable, from HK$31.5 million as at 31 December 2011 to HK$6.2 million as at 31 December 2012, which was a result of the purchase of additional machineries by us in 2011 to increase our production capacity which resulted in a higher other tax recoverable balance before the year end. The decrease in our other receivables, deposits and prepayments from HK$25.4 million as at 31 December 2012 to HK$15.5 million as at 31 December 2013 was primarily a result of the decrease in other tax recoverable in relation to the decrease in the purchase of machineries during the year ended 31 December 2013 and decrease in the deposits paid.

Held-for-trading investment

Held-for-trading investments represents our investments in unlisted investment funds in the PRC.

Trade and bills payables

The following table sets forth the balances of our trade and bills payables as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	HK$ '000	HK$ '000	HK$ '000
Trade payables	77,874	73,162	107,393
Bills payable	127,642	169,439	202,316
Total	**205,516**	**242,601**	**309,709**

Our trade and bills payables increased by HK$37.1 million from HK$205.5 million as at 31 December 2011 to HK$242.6 million as at 31 December 2012 and further to HK$309.7 million as at 31 December 2013. The increase was primarily due to the increase in our bills payables from HK$127.6 million as at 31 December 2011 to HK$169.4 million as at 31 December 2012 and further to HK$202.3 million as at 31 December 2013 to settle purchases to cater for the increase in our production.

The following table sets forth the aging analysis of our trade payables and bills payable as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	HK$ '000	HK$ '000	HK$ '000
Aging analysis of trade payables			
Within three months	76,977	73,162	98,082
Over three months	897	—	9,311
Total	**77,874**	**73,162**	**107,393**
Aging analysis of bills payable			
Within three months	125,106	156,211	151,691
Over three months	2,536	13,228	50,625
Total	**127,642**	**169,439**	**202,316**

The following table sets forth our average trade and bills payables turnover days for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
Average trade and bills payable turnover days(Note)	60.9	85.7	88.7

Note: average trade and bills payables turnover days for a certain period is derived by dividing the arithmetic mean of the opening and closing balances of trade and bills payables by cost of sales for the relevant period and then multiplied by 365 days.

Our average trade and bills payables turnover days increased from 60.9 days as at 31 December 2011 to 85.7 days as at 31 December 2012 to 88.7 days as at 31 December 2013. The increase was primarily due to the increase in the use of bills by us which generally has a longer settlement period.

As at the Latest Practicable Date, approximately HK$284.2 million, or approximately 91.8%, of our trade and bills payable as at 31 December 2013 had been settled.

Other payables and accrued charges

Our other payables and accrued charges principally comprised of accrued staff costs, payables to contractors and payable to machineries and consumable suppliers.

The following table sets forth the balances of our other payables and accrued charges as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	(HK$'000)	(HK$'000)	(HK$'000)
Accrued staff costs	28,695	31,345	43,823
Payables on acquisition of property, plant and equipment	29,649	38,105	40,573
Other payables	7,012	12,841	22,145
Other accruals	11,121	10,067	13,704
Provision for non-compliant temporary structure	4,701	6,463	6,578
Receipts in advance	1,078	5,864	4,255
Total	**82,256**	**104,685**	**131,078**

Our other payables and accrued charges increased from HK$82.3 million as at 31 December 2011 to HK$104.7 million as at 31 December 2012 primarily as a result of the increase in our accrued staff costs due to the increase in average salary of our staff and payables on acquisition of property, plant and equipment in relation to the construction of our production facilities in connection with the expansion of our operations. The increase in our other payables and accrued charges from HK$104.7 million as at 31 December 2012 to HK$131.1 million as at 31 December 2013 was primarily as a result of the increase in our accrued staff costs due to the increase in average salary of our staff and increase in our other payables, which mainly represents VAT payables, in relations to our sales before the year end.

Amounts due from/to a director

The amounts due from a Director of HK$1.4 million, HK$0.4 million and nil as at 31 December 2011, 2012 and 2013, respectively, represented temporary fund advances to Mr. Wu, our executive Director. The amounts due from a Director had been fully settled.

The amount due to Directors of HK$103.9 million, HK$58.1 million and nil as at 31 December 2011, 2012 and 2013, respectively, represented the advances from Mr. Lu and Mr. Zhang, our executive Directors. The amounts due to Directors had been fully settled.

The amount due from/to a Director was non-trading in nature, unsecured, non-interest bearing and repayable on demand.

Amounts due from/to related companies

As at 31 December 2011, 2012 and 2013, amounts due from related companies was HK$13.8 million, HK$92.4 million and nil, respectively. Amounts due from related companies are unsecured and mainly represented temporary advances to entities controlled by Mr. Wu and Mr. Lu. The non-trading balances of the amounts due from related companies were settled subsequent to 31 December 2012.

As at 31 December 2011, 2012 and 2013, amounts due to related companies was HK$88.7 million, HK$16.6 million and nil, respectively. Amounts due to related companies mainly represented sales to and purchases from related parties and rental income from and rental expenses to related parties. Amounts due to related parties are unsecured and non-interest bearing. For non-trading balances, they are payable on demand. For trade balances, the credit period granted to us is 90 days. All of these amounts due to related parties has been fully settled. For further details, please refer to Note 28 to the Accountants' Report in Appendix I of this prospectus.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to satisfy our working capital needs and our capital expenditure needs. We have historically financed our working capital and capital expenditure needs primarily through bank borrowings and cash flows from operating activities.

Cash flow

The following table sets forth a condensed summary of our combined cash flow statements for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	(HK$'000)	(HK$'000)	(HK$'000)
Net cash from operating activities	144,188	368,747	345,154
Net cash used in investing activities	(79,889)	(224,736)	(21,626)
Net cash used in financing activities	(25,316)	(122,116)	(376,319)
Net increase (decrease) in cash and cash equivalents	38,983	21,895	(52,791)
Cash and cash equivalents at beginning of the year	83,686	125,181	147,686
Effect of foreign exchange rate changes	2,512	610	2,641
Cash and cash equivalents at end of year	**125,181**	**147,686**	**97,536**

Net cash from operating activities

Our cash generated from operating activities was mainly derived from the receipt of sales and our cash used in operating activities was mainly for the purchases of raw materials, salary payment and other expenses incurred in our daily operations.

For the year ended 31 December 2013, we had net cash inflows from operating activities before changes in working capital of HK$440.6 million and a net cash inflow of HK$345.2 million. The difference of HK$95.4 million was primarily attributable to (i) increase in inventories of HK$90.6 million to cope with the expected increase in demand of our products; (ii) increase in trade and bills receivables of HK$69.6 million as a result of the increase in our revenue; and (iii) payment of income tax of HK$42.2 million; and partially offset by (i) increase in trade and bills payables of HK$64.5 million as a result of our expanded operation; and (ii) increase in other payables and accrued charges of HK$25.3 million mainly as a result of the increase in accrued staff costs and other payables.

For the year ended 31 December 2012, we had net cash inflows from operating activities before changes in working capital of HK$364.5 million and a net cash inflow of HK$368.7 million. The difference of HK$4.2 million was primarily attributable to (i) increase in trade and bills payable of HK$35.4 million due to the increase in bills payable we issued to settle purchases remained unsettled as at year end; (ii) decrease in other receivables, deposits and prepayments of HK$23.3 million primarily due to decrease in other tax recoverable of HK$25.3 million which we purchased additional machineries in 2011 which resulted in a higher VAT recoverable balance before end of 2011; (iii) decrease in trade and bills receivables of HK$13.4 million due to decrease in bills we received from customers; and partially offset by (i) the payment of income tax and PRC withholding tax of HK$69.3 million; and (ii) decrease in amounts due to related companies of HK$8.4 million.

For the year ended 31 December 2011, we had net cash inflows from operating activities before changes in working capital of HK$365.3 million and a net cash inflow of HK$144.2 million. The difference of HK$221.1 million was primarily attributable to (i) increase in inventories of HK$122.5 million as we purchased the inventories from Dongguan Runda in 2010 and resulted a higher inventory balance as at 31 December 2011; (ii) increase in trade and bills receivables of HK$111.1 million as a result of the increase in our revenue after we carried out the production and sales of elastic webbing in 2011; (iii) decrease in amounts due to related companies of HK$30.9 million; (iv) increase in other receivables, deposits and prepayments of HK$20.8 million; and (v) payment of income tax of HK$19.2 million; partially offset by increase in trade and bills payables of HK$87.3 million.

Net cash used in investing activities

Our cash from investing activities was mainly derived from withdrawal of pledged bank deposits and repayment from related parties and our cash used in investing activities was mainly used for placement of pledged bank deposits, purchases of property, plant and equipment and advances to related companies.

For the year ended 31 December 2013, our net cash used in investing activities was HK$21.6 million. This was primarily due to (i) purchases of property, plant and equipment of HK$217.2 million for our continuous expansion; (ii) placement of pledged bank deposits of HK$182.4 million; and (iii) advance to related companies of HK$209.6 million; partially offset by

(i) the withdrawal of pledged bank deposits of HK$276.3 million; and (ii) repayment from related companies of HK$301.3 million.

For the year ended 31 December 2012, our net cash used in investing activities was HK$224.7 million. This was primarily due to (i) placement of pledged bank deposits of HK$358.1 million; (ii) advance to related companies of HK$263.8 million; (iii) purchases of property, plant and equipment of HK$141.6 million for our continuous expansion; partially offset by (i) withdrawal of pledges bank deposits of HK$342.6 million; and (ii) repayment from related companies of HK$186.6 million.

For the year ended 31 December 2011, our net cash used in investing activities was HK$79.9 million. This was primarily due to (i) placement of pledged bank deposits of HK$496.5 million; (ii) advance to related companies of HK$409.6 million; (iii) purchases of property, plant and equipment of HK$138.6 million for our continuous expansion; (iv) addition of investment properties of HK$59.7 million; partially offset by (i) withdrawal of pledges bank deposits of HK$548.3 million; and (ii) repayment from related companies of HK$466.7 million.

Net cash used in financing activities

Our cash from financing activities was mainly derived from new bank borrowings, advance from related companies and new bills financing raised and our cash used in financing activities mainly comprised of repayment of bank borrowings, repayment to related companies, payment of interest and dividends, repayment of obligations under finance lease, repayment to related companies and repayment of bills financing.

For the year ended 31 December 2013, our net cash used in financing activities was HK$376.3 million. This was primarily due to (i) repayment of bank borrowings (other than bills financing) of HK$2,155.6 million; (ii) repayment of obligations under finance lease of HK$121.7 million in relation to our purchase of machineries; (iii) repayment to related companies of HK$36.7 million; (iv) interest and dividend payments of HK$46.8 million and HK$60.0 million, respectively; (v) repayment to directors of HK$57.2 million; and (vi) repayment of bills financing of HK$56.0 million; partially offset by new bank borrowings and syndicated loans raised (other than bills financing) of HK$1,714.2 million and HK$435.0 million, respectively to support our capital expenditure and working capital; and (ii) advance from related companies of HK$19.6 million.

For the year ended 31 December 2012, our net cash used in financing activities was HK$122.1 million. This was primarily due to (i) repayment of bank borrowings (other than bills financing) of HK$1,126.7 million; (ii) repayment of bills financing of HK$276.1 million; (iii) repayment to related companies of HK$227.3 million; (iv) repayment of obligations under finance lease of HK$61.9 million in relation to our purchase of machineries; (v) interest payments of HK$55.3 million; and (vi) repayment to directors of HK$45.8 million; partially offset by (i) new bank borrowings raised (other than bills financing) of HK$1,309.0 million to support our capital expenditure and working capital; (ii) new bills financing raised of HK$198.5 million; and (iii) advance from related companies of HK$163.5 million.

For the year ended 31 December 2011, our net cash used in financing activities was HK$25.3 million. This was primarily due to (i) repayment of bank borrowings (other than bills financing) of HK$756.9 million; (ii) repayment of bills financing of HK$663.4 million; (iii) repayment to related companies of HK$223.0 million; (iv) repayment of obligations under finance lease of HK$42.7 million in relation to our purchase of machineries; (v) interest payments of HK$47.6 million; and (vi) repayment to directors of HK$12.6 million; partially offset by (i) new bank borrowings raised (other than bills financing) of HK$1,000.9 million to support our capital expenditure and working capital; (ii) new bills financing raised of HK$497.8 million; and (iii) advance from related companies of HK$222.2 million.

CAPITAL EXPENDITURES AND CAPITAL COMMITMENT

Our capital expenditures mainly comprise constructions in progress in relation to our production facilities and purchases of machineries. The following table sets forth a breakdown of our capital expenditures for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	(HK$'000)	(HK$'000)	(HK$'000)
Machinery	256,908	111,638	137,075
Construction in progress	69,223	90,516	84,748
Motor vehicles	6,598	4,525	10,781
Computer and office equipment	4,959	3,749	2,219
Total	**337,688**	**210,428**	**234,823**

The capital expenditures we incurred for the years ended 31 December 2011, 2012 and 2013 were primarily related to the purchase of machineries to expand our production capacity and the construction of our eighth production facility.

We estimate that the capital expenditures for the year ending 31 December 2014 will be approximately HK$126.4 million. Our planned future capital expenditures mainly include the construction of a new production facility and the purchase of additional machineries. We expect to fund these expansion plans with bank financing, cash flow from our operations and the net proceeds from the Global Offering. For further details on our expansion plan, please refer to the section headed "Business — Expansion Plans" in this prospectus.

The actual amounts of expenditures incurred may vary from the estimate for a variety of reasons, including changes in market conditions and other factors. Our ability to obtain additional funding required for increased capital expenditures in the future is subject to a variety of uncertainties including the future results of our operations, financial condition and cash flows, and economic and political and other conditions in the PRC.

Capital commitment

The following table sets forth our capital commitments in respect of acquisition of property, plant and equipment contracted but not provided for as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	HK$ '000	HK$ '000	HK$ '000
Contracted but not provided for	54,750	60,975	67,838

Our capital commitments of HK$54.8 million, HK$61.0 million and HK$67.8 million as at 31 December 2011, 2012 and 2013, respectively, were primarily related to the addition of machineries for our expansion. As at 31 March 2014, our capital commitments in respect of acquisition of property, plant and equipment contracted but not provided for amounted to approximately HK$50.4 million.

INDEBTEDNESS

As at 31 March 2014, we had total borrowings of HK$761.1 million, comprising of secured bank borrowings of HK$178.3 million, unsecured and guaranteed bank borrowings of HK$80.8 million, unsecured syndicated loans with carrying amount of HK$425.9 million (principal amount of HK$435.0 million), collateralised bank borrowings from factoring of trade receivables with full recourse of HK$15.9 million and secured obligation under finance leases of HK$60.2 million. As at 31 March 2014, we had banking facilities of approximately HK$1,701.2 million, of which approximately HK$931.0 million was unutilised.

Bank borrowings in aggregate of HK$178.3 million were guaranteed by Mr. Lu and Mr. Zhang and secured by assets of the Group, including property, plant and equipment with carrying amount of HK$139.7 million, pledged bank deposits with carrying amount of HK$109.6 million, investment properties with carrying amount of HK$72.5 million, prepaid lease payments with carrying amount of HK$30.9 million and available-for-sale investments with carrying amount of HK$2.9 million. The unsecured bank borrowings of HK$80.8 million are guaranteed by group companies, Mr. Lu and Mr. Zhang. The collateralised bank borrowings from factoring of trade receivables with full recourse of HK$15.9 million are secured by the trade receivable of HK$91.4 million. The unsecured syndicated loans with carrying amount of HK$425.9 million (principal amount of HK$435.0 million) are guaranteed by group companies, Mr. Lu and Mr. Zhang. We also had outstanding obligations under finance leases of HK$60.2 million which are secured by property, plant and equipment of HK$132.7 million.

Information on contingent liabilities, cross guarantees and corporate guarantees provided by our Group to banks in relation to banking facilities obtained by related companies is disclosed in note 44 of the Accountants' Report in Appendix I to this prospectus.

Save as disclosed herein, we did not have any outstanding debt securities issued and outstanding or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages and charges, material contingent liabilities or guarantees outstanding as at 31 March 2014. Our Directors confirm that there is no material change in our indebtedness position since 31 March 2014 up to the date of this prospectus. We intend to continue to finance portions of our capital expenditure with bank borrowings, as we deem appropriate. Except for such bank borrowings, we currently do not have plans for other material external debt financing. As at the Latest Practicable Date, there are no material restrictive covenants relating to any of our outstanding debts. Our Director confirm that we had no material defaults in payment of trade and non-trade payables and bank borrowings, and/or breaches of finance covenants during the Track Record Period.

Bank borrowings

We obtain loans and borrowings from banks to finance our capital expenditure and expansion. Our outstanding balance of bank borrowings as at 31 December 2011, 2012 and 2013 was HK$752.6 million, HK$861.3 million and HK$797.2 million, respectively. The following table sets forth our outstanding bank borrowings as at the dates indicated:

	As at 31 December			As at 31 March
	2011	2012	2013	2014
	HK$ '000	HK$ '000	HK$ '000	HK$ '000
				(unaudited)
Unsecured Syndicated loans	—	—	424,857	425,872
Secured bank borrowings	436,751	606,832	194,377	178,307
Unsecured bank borrowings	147,255	170,314	143,529	80,801
Collateralised bank borrowings for factoring of receivables with full recourse	35,947	28,175	34,459	15,859
Bills financing borrowings	132,654	55,970	—	—
	752,607	861,291	797,222	700,839
Carrying amount payable:				
Within one year	724,225	804,334	325,008	290,395
More than one year, but not exceeding two years	7,170	36,461	149,101	85,466
More than two years, but not more than five years	18,474	20,496	323,113	324,978
More than five years	2,738	—	—	—
	752,607	861,291	797,222	700,839
Less: Amounts due within one year or contain a repayment on demand clause shown under current liabilities	(732,793)	(845,088)	(345,660)	(313,273)
Amounts shown under non- current liabilities	19,814	16,203	451,562	387,566

Our bank borrowings increased from HK$752.6 million as at 31 December 2011 to HK$861.3 million as at 31 December 2012, and HK$797.2 million as at 31 December 2013 due to our increased capital needs for the expansion of our production capacity. During the Track Record Period, we have not experienced any delay or default in repayment of bank borrowings nor experienced any difficulties in obtaining banking facilities with terms that we consider are commercially acceptable.

The amounts due are based on scheduled repayment dates set out in the relevant loan agreements. The above bank loans have interest rates ranging from 2.34% to 9.51% per annum for the year ended 31 December 2011, 2.55% to 7.87% per annum for the year ended 31 December 2012 and 3.09% to 8.80% per annum for the year ended 31 December 2013.

Certain of our bills payable issued and bank borrowings were secured by our assets, during the Track Record Period. The following table sets forth the carrying value of the pledged assets as at the dates indicated:

	As at 31 December			As at 31 March
	2011	2012	2013	2014
	HK$ '000	HK$ '000	HK$ '000	HK$ '000
				(unaudited)
Property, plant and equipment	84,556	246,081	187,959	139,684
Trade receivables	45,679	110,860	169,283	91,363
Pledged bank deposits	172,380	187,926	96,107	109,558
Investment properties	63,704	65,920	72,152	72,519
Prepaid lease payments	14,740	45,655	31,038	30,911
Available-for-sale financial assets	2,653	3,024	2,979	2,860
Inventories	58,183	47,687	—	—
Total	**441,895**	**707,153**	**559,518**	**446,895**

Finance lease

We leased certain machineries and motor vehicles under finance leases. The lease terms ranged from three to four years. The underlying interest rates for all obligations under the finance leases are fixed at respective contract dates ranging from 3.50% to 6.75%, 3.50% to 6.75% and 3.50% to 4.75% per annum as at 31 December 2011, 2012 and 2013, respectively. These finance leases were on a fixed repayment basis and no arrangements was entered into for contingent rent payments. Our obligations under the finance leases were secured by the lessors' charge over the leased assets. The following table sets forth our obligations under the finance leases as at the dates indicated:

	As at 31 December			As at 31 March
	2011	2012	2013	2014
	HK$ '000	HK$ '000	HK$ '000	HK$ '000
				(unaudited)
Within one year	60,845	70,097	34,177	32,050
In the second to fifth year inclusive	116,728	92,574	28,197	31,250
	177,573	162,671	62,374	63,300
Less: future finance charges	(12,299)	(9,841)	(2,611)	(3,066)
Total	**165,274**	**152,830**	**59,763**	**60,234**

Statement of indebtedness

As at 31 March 2014, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, except as disclosed in the paragraph headed "— Indebtedness" in this section, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding.

Our Directors confirmed that there has not been any material change in our indebtedness since 31 March 2014, being the latest practicable date for determining our indebtedness.

Contingent liabilities

Our contingent liabilities represent guarantees provided by our Group to banks in relation to bank loans obtained by related parties. For further details, please refer to note 44 of the Accountants' Report in Appendix I to this prospectus for details of our contingent liabilities. Our Directors confirm that all guarantees will be released upon the Listing.

FINANCIAL RATIOS

The following table sets forth a summary of our key financial ratios for the periods indicated:

Financial Ratios	Formulae	As at/year ended 31 December		
		2011	2012	2013
Profitability ratios:				
1. Growth				
Revenue growth		—	0.4%	18.3%
Net profit growth		—	-3.8%	23.5%
2. Profit margins				
Gross profit margin	a. Gross profit/Revenue x 100%	32.0%	32.0%	31.5%
Net profit margin before interest and tax	b. Net profit before interest (before capitalisation) and tax/Revenue x 100%	20.8%	21.1%	21.0%
Net profit margin	c. Net profit after tax/Revenue x 100%	14.7%	14.1%	14.7%
3. Return on equity				
Return on equity	a. Net profit/Average total equity x 100%	66.1%	38.6%	34.0%
Return on total assets	b. Net profit/Total assets x 100%	10.9%	9.4%	11.3%
Liquidity ratios:				
1. Liquidity ratios				
Current ratio	a. Current assets/Current liabilities	0.7	0.7	1.2
Quick ratio	b. (Current assets – Inventories)/Current liabilities	0.5	0.6	0.8
2. Turnover ratios				
Inventories turnover days	a. Average inventories/Cost of sales x 365 days	65.2	88.4	88.0
Trade and bills receivables turnover days	b. Average trade and bills receivables/Revenue x 365 days	87.2	100.9	91.9
Trade and bills payables turnover days	c. Average trade and bills payables / Cost of sales x 365 days	60.9	85.7	88.7

Financial Ratios	Formulae	As at/year ended 31 December		
		2011	2012	2013
Capital adequacy ratios:				
1. Gearing ratio	Total bank borrowing (including bills financing borrowings)/Total equity x 100%	179.8%	141.7%	95.8%
2. Debt to net worth ratio				
Net debt to equity ratio	a. Net debt (Total bank borrowings (including bills financing borrowings) – bank balances and cash)/Total equity x 100%	149.9%	117.4%	84.1%
Interest coverage	b. Profit before interest (before capitalisation) and tax/interest	6.1	5.3	7.4

Return on equity

Our return on equity decreased from 66.1% for the year ended 31 December 2011 to 38.6% for the year ended 31 December 2012 and 34.0% for the year ended 31 December 2013. The decrease was primarily due to the increase in our equity resulted from our profit generated during the year.

Return on total assets

Our return on total assets decreased from 10.9% for the year ended 31 December 2011 to 9.4% for the year ended 31 December 2012 primarily due to the increase in total assets as a result of the expanded scale of our operations. Our total assets increased by 11.7% during the year ended 31 December 2012 due to our expanded scale of production and the addition of plants and machineries. Our return on total assets increased from 9.4% for the year ended 31 December 2012 to 11.3% for the year ended 31 December 2013 as a result of the increase in our profit by 23.5%.

Current ratio and quick ratio

Our current ratios were 0.7, 0.7 and 1.2 as at 31 December 2011, 2012 and 2013, respectively. Our current ratio remained relatively stable as at 31 December 2011 and 2012. The increase in current ratio to 1.2 as at 31 December 2013 was mainly due to the decrease in current liabilities as we refinanced certain short term bank borrowings to long term bank borrowings. Our quick ratios were 0.5, 0.6 and 0.8 as at 31 December 2011, 2012 and 2013, respectively. Our quick ratio remained relatively stable as at 31 December 2011 and 2012. The increase in quick ratio to 0.8 as at 31 December 2013 was also due to the re-financing of certain short term bank borrowings to long term bank borrowings.

Gearing ratio and net debt to equity ratio

Our gearing ratios were 179.8%, 141.7% and 95.8% as at 31 December 2011, 2012 and 2013, respectively. Our net debt to equity ratio were 149.9%, 117.4% and 84.1% as at 31 December 2011, 2012 and 2013, respectively. The decline in gearing ratio and net debt to equity ratio as at 31 December 2012 was primarily due to the increase in our total equity which was a result of the increase in our profit generated during the year and decrease in our bank borrowings.

RELATED PARTY TRANSACTIONS

Please see Note 47 to the Accountants' Report in Appendix I to this prospectus for details of our related party transactions during the Track Record Period.

With respect to the related party transactions set out in the Accountants' Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or terms that are no less favourable than terms available from Independent Third Parties which are considered fair and reasonable and in the interest of our Shareholders as a whole.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

WORKING CAPITAL

As at 31 March 2014, our unutilised banking facilities amounted to HK$931.0 million. Taking into account our cash generated from operating activities, the net proceeds of the Global Offering and our credit facilities maintained with our banks, our Directors are of the opinion that we will have sufficient working capital for our operations at least for the 12 months following the date of this prospectus. The Sole Sponsor concurs with our Directors' view.

LISTING EXPENSES

The estimated total listing expenses incurred in relation to this Global Offering are estimated to be approximately HK$49.2 million, of which HK$23.1 million is expected to be capitalised upon the Listing. Up to 31 December 2013, we paid HK$8.2 million of listing expenses of which HK$6.9 million was recognised in the combined statements of profit or loss and other comprehensive income. We estimate that additional listing expenses of HK$41.0 million will be incurred after 31 December 2013 and HK$19.2 million will be further charged to the combined statements of profit or loss and other comprehensive income after 31 December 2013. These listing expenses are mainly comprised of underwriting commission, professional fees paid to legal advisers, reporting accountant and the sponsor fee for the Sole Sponsor (for the amount of HK$3.0 million) for their services rendered in relation to the Listing and the Global Offering.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to various market risks, including credit risk, foreign currency risk, interest rate risk and liquidity risk in the normal course of business. We mainly manage our exposure to these market risks through our regular operating activities.

Credit risk

As at 31 December 2011, 2012 and 2013, our maximum exposure to credit risk that will cause a financial loss to us due to failure to discharge obligations by the counterparties as at the end of reporting period arising from the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position and the amount of contingent liabilities relating to financial guarantees disclose in note 44 of the Accountants' Report in Appendix I of this prospectus.

In order to minimise the credit risk, our management has delegated a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. We review the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses or allowances are made for irrecoverable amounts.

We have concentration of credit risk in respect of amounts due from related companies. In order to minimise the credit risk on amounts due from related companies, our management continuously monitors the credit quality and financial conditions of the related companies and the level of exposure to ensure that follow-up action is taken to recover overdue debts. Our related companies mainly represented entities controlled by Mr. Lu or family members of Mr. Lu. Under such circumstances, our management considers that our credit risk is insignificant.

For the financial guarantees, those guarantees are provided to our related companies and our management continuously monitors the credit quality and financial conditions of the guaranteed parties that we issued financial guarantee contracts in favour of to ensure that we will not suffer significant credit losses as a result of the failure of the guaranteed parties on the repayment of the relevant loans. In this regard, our management considers that our credit risk is significantly reduced.

The credit risk for pledged bank deposits and bank balances is considered as not material as such amounts are placed in banks with high credit ratings assigned by international credit-rating agencies or state-owned.

Other than concentration of credit risk on liquid funds which are deposited with several reputable banks, we had concentration of credit risk on trade receivables as 12%, 13% and 14% of the total trade receivables were due from our largest customer and 36%, 31% and 28% of the total trade receivables were due from our largest five customers as at 31 December 2011, 2012 and 2013, respectively.

Our Directors consider that the credit risk for deposits and bank balances is minimal as such amounts are placed in banks with high credit ratings assigned by international credit-rating agencies or state-owned.

Foreign currency risk

Certain trade receivables, trade payables, bank balances and cash and bank borrowings are denominated in foreign currencies other than our functional currency, which expose us to foreign currency risk. We do not have a foreign currency hedging policy. However, our management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

In the event of currency fluctuations, we may have to increase our product pricing to compensate for the increase in our costs. This would decrease our market competitiveness, on a price basis, for our products and could result in a decrease in our revenue. In the future, our management will monitor foreign exchange exposure and will consider hedging or factoring significant foreign currency exposure into the pricing of our products should the need arise.

Interest rate risk

Our Group is mainly exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and bank balances, and fair value interest rate risk in relation to fixed-rate pledged bank deposits and obligations under finance leases an non-interest bearing amounts due from/to directors and related parties.

Our Group currently does not have interest rate hedging policy. However, our management closely monitors our exposure to future cash flow risk as a result of changes in market interest rates and will consider hedging changes in market interest rates should the need arise.

Liquidity risk

In the management of liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance operations and mitigate the effects of fluctuations in cash flows. We rely on bank borrowings as a significant source of liquidity. Our management monitors the utilisation of borrowings and ensures compliance with loan covenants.

As at 31 December 2011, 2012 and 2013, we had bank borrowings of HK$752.6 million, HK$861.3 million and HK$797.2 million, respectively. As at 31 December 2011, 2012 and 2013, we had amounts due to related companies of HK$88.7 million, HK$16.6 million and nil, respectively.

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' general meeting for approval. Our dividend distribution is based on our profit available for appropriation. During the year ended 31 December 2013, we declared and paid dividends of HK$60.0 million. We cannot guarantee when, if and in what form dividends will be paid in the future.

Our Directors may recommend a payment of dividends in the future after taking into account our operations , earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time. Subject to the above policy, we intend to recommend annually in subsequent years for the foreseeable future a dividend distribution of not less than 20% of our distributable profit for the year. Such intention does not amount to any guarantee or representation or indication that we must or will declare and pay dividends in such manner or declare and pay any dividends at all.

Distributable Reserves

As at 31 December 2013, our Company had no distributable reserves which were available for distribution to our equity holders.

PROPERTY INTERESTS AND PROPERTY VALUATION

Particulars of our Group's property interests are set out in Appendix III to this prospectus. Avista Valuation Advisory Limited has valued the property interests of our Group as at 31 March 2014. A summary of values and valuation certificates issued by Avista Valuation Advisory Limited are included in Appendix III to this prospectus.

The following table sets forth the reconciliation of the net book value of relevant property interests including prepaid land lease payments, buildings and investment properties from our audited combined financial statements as at 31 December 2013 to the unaudited net book value of our Group's property interests as at 31 March 2014:

	HK$'000
Net book value of property interests of our Group as at 31 December 2013:	
— Prepaid lease payments	45,452
— Buildings	272,068
— Investment properties	72,152
	389,672
Movements for the period from 1 January 2014 to 31 March 2014:	
Amortisation of prepaid lease payments	(254)
Depreciation	(3,698)
	(3,952)
Net book value as at 31 March 2014	385,720
Valuation surplus as at 31 March 2014	105,439
Valuation as at 31 March 2014 per Appendix III Valuation Report (excluding the properties under development)	491,159

PRO FORMA NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Global Offering on our net tangible assets as at 31 December 2013 as if the Global Offering had taken place on that date. The pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our net tangible assets had the Global Offering been completed as at 31 December 2013 or at any future date. The pro forma statement of adjusted net tangible assets is based on the audited combined net tangible assets of our Group attributable to the equity holders of our Company as at 31 December 2013 as shown in the Accountant's Report of our Company, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The pro forma statement of net tangible assets does not form part of the Accountants' Report in Appendix I to this prospectus.

	Combined net tangible assets of our Group attributable to owners of our Company as at 31 December 2013	Estimated net proceeds from the Global Offering	Pro forma adjusted combined net tangible assets of the Group attributable to the owners of our Company	Pro forma adjusted combined net tangible assets of the Group attributable to owners of our Company per Share
	HK$'000	HK$'000	HK$'000	HK$
Based on an offer price of HK$1.85 per Share	725,563	422,680	1,148,243	1.15
Based on an offer price of HK$2.50 per Share	725,563	580,305	1,305,868	1.31

Notes: please see "Appendix II — Pro Forma Financial Information" in this prospectus for further details regarding the assumptions used and the calculation method.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects of our Company since the date of this prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.