

# Shen You Holdings Limited 申酉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8377

## SHARE OFFER



Sole Sponsor



**華邦融資有限公司**  
Huabang Corporate Finance Limited

Sole Bookrunner



**華邦證券有限公司**  
Huabang Securities Limited

# IMPORTANT

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

## SHEN YOU HOLDINGS LIMITED

### 申酉控股有限公司

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

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

**Number of Offer Shares** : 200,000,000 Shares (subject to the Offer Size Adjustment Option)  
**Number of Public Offer Shares** : 20,000,000 Shares (subject to reallocation)  
**Number of Placing Shares** : 180,000,000 Shares (subject to reallocation and the Offer Size Adjustment Option)  
**Offer Price** : Not more than HK\$0.375 per Offer Share and expected to be not less than HK\$0.25 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full upon application in Hong Kong dollars and subject to refund)  
**Nominal Value** : HK\$0.01 per Share  
**Stock Code** : 8377

#### Sole Sponsor



**華邦融資有限公司**  
Huabang Corporate Finance Limited

#### Sole Bookrunner



**華邦證券有限公司**  
Huabang Securities Limited

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

A copy of this prospectus, having attached thereto the documents specified under the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

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

The final Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or before Monday, 11 December 2017 or such later date as the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company may agree. The Offer Price will not be more than HK\$0.375 per Offer Share and is expected to be not less than HK\$0.25 per Offer Share. The Sole Bookrunner (for itself and on behalf of the Underwriters) may, with the consent of our Company, reduce the indicative Offer Price range and/or the number of Offer Shares stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. If this occurs, notice of reduction of the indicative Offer Price range and/or the number of Offer Shares will be published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.shenyouholdings.com](http://www.shenyouholdings.com). If the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on or before the Price Determination Date, the Share Offer will not become unconditional and will lapse immediately. In the case of such event, a notice will be published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.shenyouholdings.com](http://www.shenyouholdings.com).

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the U.S. and may not be offered, sold, pledged, or transferred within the U.S., except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. securities law.

Prospective investors of the Offer Shares should note that the Sole Bookrunner (for itself and on behalf of the Underwriters) is entitled, in its sole and absolute discretion, to terminate the obligations of the Underwriters under the Underwriting Agreements by giving notice in writing to us upon the occurrence of any of the events set forth under the section headed "Underwriting — Underwriting Arrangements and Expenses — The Public Offer — Grounds for termination" of this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters) terminate the Public Offer Underwriting Agreement, the Share Offer will not proceed and will lapse. Further details of these termination provisions are set out in the section headed "Underwriting" of this prospectus. It is important that prospective investors refer to that section for further details.

## CHARACTERISTICS OF GEM

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

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

*The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazette newspaper. Accordingly, prospective investors should note that they need to have access to the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) in order to obtain up-to-date information on GEM-listed issuers.*

## EXPECTED TIMETABLE

*If there is any change in the following expected timetable of the Share Offer, we will issue an announcement in Hong Kong to be posted on the website of our Company at [www.shenyouholdings.com](http://www.shenyouholdings.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).*

	<b>Date</b> <small>(Note 1)</small>
<b>2017</b>	
Latest time for completing electronic applications under <b>HK eIPO White Form</b> services through the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> <small>(Note 4)</small> .....	11:30 a.m. on Friday, 8 December 2017
Application lists of the Public Offer open <small>(Note 2)</small> .....	11:45 a.m. on Friday, 8 December 2017
Latest time for lodging <b>WHITE</b> and <b>YELLOW</b> Application Forms and giving <b>electronic application instructions</b> to HKSCC <small>(Note 3)</small> .....	12:00 noon on Friday, 8 December 2017
Latest time for completing payment of <b>HK eIPO White Form</b> applications by effecting internet banking transfer(s) or PPS payment transfer(s) .....	12:00 noon on Friday, 8 December 2017
Application lists of the Public Offer close <small>(Note 2)</small> .....	12:00 noon on Friday, 8 December 2017
Expected Price Determination Date on or before <small>(Note 5)</small> .....	Monday, 11 December 2017
Announcement of (i) the final Offer Price; (ii) the level of indications of interest in the Placing; (iii) the level of applications in the Public Offer; (iv) the basis of allotment of the Public Offer Shares; and (v) the number of Offer Shares reallocated, if any, between the Public Offer and the Placing to be published on the website of our Company at <a href="http://www.shenyouholdings.com">www.shenyouholdings.com</a> <small>(Note 6)</small> and the website of the Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> on or before.....	Thursday, 14 December 2017
Results of allocation in the Public Offer will be available at <a href="http://www.tricor.com.hk/ipo/result">www.tricor.com.hk/ipo/result</a> with a “search by ID Number” function from.....	Thursday, 14 December 2017
Announcement of results of allotment of the Public Offer (with successful applicants’ identification document numbers, where applicable) available through a variety of channels as described in the section headed “How to Apply for the Public Offer Shares — 11. Publication of results” of this prospectus from .....	Thursday, 14 December 2017

## EXPECTED TIMETABLE

Date *(Note 1)*

2017

Despatch/collection of share certificates and/or refund cheques or  
**HK eIPO White Form e-Auto Refund** payment instructions  
on or before *(Notes 7, 8, 9, 10, 11 and 12)* ..... Thursday, 14 December 2017

Dealings in the Shares on GEM to commence on ..... 9:00 a.m. on  
Friday, 15 December 2017

*Notes:*

1. All dates and times refer to Hong Kong local dates and times, except as otherwise stated. Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure and Conditions of the Share Offer” of this prospectus.
2. If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 8 December 2017, the application lists will not open or close on that day. Further information is set forth in the section headed “How to Apply for the Public Offer Shares — 10. Effect of bad weather on the opening of the application lists” of this prospectus.
3. Applicants who apply for the Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for the Public Offer Shares — 6. Applying by giving **electronic application instructions** to HKSCC via CCASS” of this prospectus.
4. You will not be permitted to submit your application through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
5. Please note that the Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or before Monday, 11 December 2017. If, for any reason, the Offer Price is not agreed between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) on or before Monday, 11 December 2017, the Share Offer will not become unconditional and will lapse immediately. Notwithstanding that the Offer Price may be less than the maximum Offer Price of HK\$0.375 per Offer Share, applicants must pay the maximum Offer Price of HK\$0.375 per Offer Share at the time of application, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, but the surplus application monies will be refunded, without interest, as provided in the section headed “How to Apply for the Public Offer Shares” of this prospectus.
6. None of our Company’s website or any of the information contained in our Company’s website forms part of this prospectus.
7. Share certificates for the Offer Shares are expected to be issued on Thursday, 14 December 2017 but will only become valid certificates of title at 8:00 a.m. on Friday, 15 December 2017 provided that (i) the Share Offer has become unconditional in all respects; and (ii) neither of the Underwriting Agreements has been terminated. If the Public Offer does not become unconditional or either of the Underwriting Agreements is terminated, we will make an announcement as soon as possible.
8. Refund cheques or e-Auto Refund payment instructions will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer, and in respect of successful applications if the Offer Price as finally determined is less than the price payable on application. Refund by cheque(s) will be made out to you, or if you are joint applicants, to the first named applicant on your Application Form. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant provided by you may be printed on your refund cheque, if any. Such data may also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque, if any. Inaccurate completion of your Hong Kong identity card number/passport number may lead to a delay in encashment of, or may invalidate, your refund cheque.

## EXPECTED TIMETABLE

9. Applicants for 1,000,000 Public Offer Shares or more on **WHITE** Application Form or **HK eIPO White Form** may collect their refund cheques (where relevant) and/or Share certificates (where relevant) personally from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 14 December 2017 or any other day as announced by us as the date of despatch of Share certificates/refund cheques. Individuals who are eligible for personal collection must not authorise any other person(s) to make collection on their behalf. Corporate applicants which opt for personal collection must attend by their authorised representative(s) bearing a letter of authorisation from such corporation(s) stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar.
10. Applicants for 1,000,000 Public Offer Shares or more on **YELLOW** Application Form may collect their refund cheques, if any, in person but may not collect their Share certificates personally which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participants' stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.
11. Applications who have applied on Public Offer Shares by giving electronic application instructions to HKSCC via CCASS should refer to the section headed "How to Apply for the Public Offer Shares — 14. Despatch/collection of share certificates and refund monies" of this prospectus for details.
12. Applicants who have applied through the **HK eIPO White Form** service and paid their applications monies through single bank accounts may have refund monies (if any) despatched to the bank account in the form of e-Auto Refund payment instructions. Applicants who have applied through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.
13. Applicants who have applied for less than 1,000,000 Public Offer Shares and any uncollected Share certificates and/or refund cheques (if any) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. For further information, applicants should refer to the section headed "How to Apply for the Public Offer Shares — 14. Despatch/collection of share certificates and refund monies" of this prospectus.

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### IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by our Company solely in connection with the Share Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Share Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances.*

*You should rely only on the information contained in this prospectus to make your investment decision. Our Company, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Underwriters, any of our/their respective directors, officers, employees, agents or representatives, or any other persons or parties involved in the Share Offer, have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made or contained in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Underwriters, any of our/their respective directors, officers, employees, agents or representatives, or any other persons or parties involved in the Share Offer. The contents of our website at [www.shenyouholdings.com](http://www.shenyouholdings.com) do not form part of this prospectus.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in our Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this section are defined or explained in the sections headed “Definitions” and “Glossary” of this prospectus.*

### OVERVIEW

Our Group principally engages in the manufacturing and selling of sewing threads. We currently manufacture polyester sewing threads, which are mainly used for garments. Our major product for sale is 100% spun polyester sewing threads. We also offer other types of sewing threads, namely, textured polyester series, elastic filament sewing threads and weft yarn. We manufacture our sewing threads in our Guangzhou Production Facilities, which are located in Liwan, Guangzhou and sell them in the PRC, Hong Kong and overseas.

### OUR PRINCIPAL BUSINESS ACTIVITIES

We sell different types of polyester threads. Our major product for sale is 100% spun polyester sewing threads, which are mainly used for garments. During the Track Record Period, we sold our products in the PRC, Hong Kong as well as overseas. The table below sets forth the breakdown of our revenue attributable to domestic and overseas sales of our sewing threads for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017:

	For the year ended 31 December				For the five months ended 31 May			
	2015		2016		2016		2017	
	HK\$'000	% of total revenue	HK\$'000	% of total revenue	HK\$'000	% of total revenue	HK\$'000	% of total revenue
<b>PRC</b>	48,449	58.5	38,733	53.3	15,265	60.0	12,986	49.8
<b>Hong Kong</b>	5,426	6.5	5,964	8.2	2,214	8.7	2,984	11.4
<b>Overseas</b>								
UAE	22,218	26.8	20,556	28.3	5,035	19.8	8,355	32.0
Others	6,736	8.2	7,371	10.2	2,932	11.5	1,780	6.8
<b>Total</b>	<u>82,829</u>	<u>100.0</u>	<u>72,624</u>	<u>100.0</u>	<u>25,446</u>	<u>100.0</u>	<u>26,105</u>	<u>100.0</u>

*Note:* During the Track Record Period, we exported our products to countries including but not limited to, UAE, Mauritius, Australia, Germany and the United Kingdom.

## SUMMARY

The table below sets out the breakdown of our revenue by product we offered for sale during the Track Record Period:

	For the year ended 31 December				For the five months ended 31 May			
	2015		2016		2016		2017	
	<i>% of total</i>		<i>% of total</i>		<i>% of total</i>		<i>% of total</i>	
	<i>Revenue</i>	<i>revenue</i>	<i>Revenue</i>	<i>revenue</i>	<i>Revenue</i>	<i>revenue</i>	<i>Revenue</i>	<i>revenue</i>
	<i>(HK\$'000)</i>	<i>(%)</i>	<i>(HK\$'000)</i>	<i>(%)</i>	<i>(HK\$'000)</i>	<i>(%)</i>	<i>(HK\$'000)</i>	<i>(%)</i>
100% spun polyester sewing threads	72,680	87.7	65,267	89.9	22,490	88.4	23,539	90.2
Other threads ( <i>Note</i> )	10,149	12.3	7,357	10.1	2,956	11.6	2,566	9.8
<b>Total</b>	<b>82,829</b>	<b>100.0</b>	<b>72,624</b>	<b>100.0</b>	<b>25,446</b>	<b>100.0</b>	<b>26,105</b>	<b>100.0</b>

*Note:* Other threads comprise textured polyester series, elastic filament sewing threads and weft yarn.

### OUR COMPETITIVE STRENGTHS

We believe that our Group possesses the following competitive strengths:

- Our Group has maintained long-term business relationships with our customers and suppliers
- We adopt a stringent quality control mechanism to ensure our product quality
- Our strategic location allows us to be better positioned for the business development of our Group
- We have an experienced management team with extensive industry experience
- Our equipment and technology ensures production capability

For details of our competitive strengths, please refer to the section headed “Business — Our Competitive Strengths” of this prospectus.

### OUR BUSINESS STRATEGIES

- Enhancing our production capacity by upgrading our existing machinery
- Broadening our product range by introducing nylon threads
- Expanding our sales network

For details of our business strategies, please refer to the section headed “Business — Our Business Strategies” of this prospectus.

### OUR PRODUCTS

Our core product for sale is 100% spun polyester sewing threads, comprising two broad categories, 100% spun polyester sewing threads for industrial use and 100% spun polyester sewing threads for domestic use. The length of each cone of 100% spun polyester sewing threads for industrial use ranges from approximately one km to six km whereas the length of each cone of 100% spun polyester sewing threads for domestic use ranges from approximately 200 m to 600 m. We also sell other sewing thread items, including textured polyester series, elastic filament sewing threads and weft yarn.

## SUMMARY

### OUR PRODUCTION PROCESS

The manufacturing process of our sewing threads involves procurement of fibre, yarn production (or procurement of yarn), cone winding, dyeing of threads, waxing and winding of threads, packaging and delivery. If we start with the procurement of fibre, the average production lead time from procurement of fibre to delivery of our sewing threads is approximately 23 days. If we purchase yarn directly from yarn suppliers, the average production lead time from procurement of yarn to delivery of our sewing threads is approximately five days. For further details of our production process, please refer to the section headed “Business — Our Production Process” of this prospectus.

### OUR PRODUCTION FACILITIES

Our production facilities comprise five production lines. To facilitate the manufacturing of our 100% spun polyester sewing threads, we have three production lines. Besides, to facilitate the manufacturing of our other threads i.e. textured polyester series, elastic filament sewing threads and weft yarn, we have two production lines. For details of the actual production volume and the utilisation rate of our production lines, please refer to the section headed “Business — Our Production Facilities” of this prospectus. During the Track Record Period, the average designed production capacity of both our Production line 1 and Production line 2 generally decreased. The main reason for the declining designed production capacity is that the machines for such a production line, which had been functioning for a long time, required frequent maintenance and repairs. For further details, please refer to the section headed “Future Plans and Use of Proceeds — Reasons for the Share Offer and Use of Proceeds” of this prospectus.

### RAW MATERIALS

We have fibre, yarn, dyeing materials and packing materials as our major raw materials used in the production of our sewing threads. For the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, the cost of raw materials accounted for approximately 45.0%, 46.7%, 47.4% and 48.8% of our total cost of sales, respectively. The table below sets out the breakdown of our total purchase of raw materials during the Track Record Period:

	For the year ended 31 December				For the five months ended 31 May			
	2015		2016		2016		2017	
	% of total cost of		% of total cost of		% of total cost of		% of total cost of	
	<i>Purchases</i>	<i>sales</i>	<i>Purchases</i>	<i>sales</i>	<i>Purchases</i>	<i>sales</i>	<i>Purchases</i>	<i>sales</i>
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
Fibre	8,942	15.8	5,147	11.3	1,920	11.3	2,419	14.4
Yarn	7,221	12.8	9,051	19.8	3,487	20.6	2,794	16.6
Dyeing materials	5,291	9.4	3,502	7.7	1,348	7.9	1,471	8.8
Packing materials	3,979	7.0	3,590	7.9	1,282	7.6	1,519	9.0
<b>Total</b>	<b>25,433</b>	<b>45.0</b>	<b>21,290</b>	<b>46.7</b>	<b>8,037</b>	<b>47.4</b>	<b>8,203</b>	<b>48.8</b>

For details of our raw materials, please refer to the section headed “Business — Raw Materials and Suppliers — Raw materials” of this prospectus.

## SUMMARY

### SUPPLIERS

Our suppliers mainly supply (1) raw materials; and (2) processing work, including yarn production and dyeing to us. We sourced raw materials and provision of processing work from suppliers based in the PRC. We have a list of our approved suppliers, which is reviewed and updated regularly. Supplies from our largest supplier accounted for approximately 21.4%, 18.1% and 21.4% of our total supplies for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively. Supplies from our five largest suppliers accounted for approximately 59.9%, 61.7% and 66.7% of our total supplies for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively. For details of our suppliers, please refer to the section headed “Business — Raw Materials and Suppliers — Suppliers” of this prospectus.

### SUBCONTRACTING ARRANGEMENTS

We subcontract the yarn production process to yarn manufacturers from our list of approved suppliers. Prior to May 2016, the dyeing process for our sewing threads was either carried out by us at our Guangzhou Production Facilities or subcontracted to our dyeing suppliers, all of which were Independent Third Parties. However, we shut down our dyeing facilities located at our Guangzhou Production Facilities in May 2016. As such, since May 2016, our dyeing process has been subcontracted to the dyeing suppliers from our list of approved suppliers. We do not enter into any long-term contracts with our yarn manufacturers and dyeing suppliers. For details of the processes we subcontract, please refer to the section headed “Business — Subcontracting Arrangements” of this prospectus.

### CUSTOMERS AND PRICING POLICY

Our customers are primarily garment manufacturers and wholesalers. Over the course of our business operations, our Group has maintained good relationship with our customers. For the two years ended 31 December 2016 and the five months ended 31 May 2017, the percentage of our Group’s aggregate revenue attributable to our largest customer in terms of revenue was approximately 26.8%, 28.3% and 32.0%, respectively and the percentage of our Group’s aggregate revenue attributable to our five largest customers in terms of revenue was approximately 39.7%, 43.3% and 49.1% for the corresponding periods, respectively. During the Track Record Period, we sold our products directly to our customers and we had not appointed any distributors or agents to conduct sales on our behalf. For details of our customers, please refer to the section headed “Business — Customers” of this prospectus. Our pricing policy aims to facilitate the profitability of our business as well as our sustainable growth strategy. In determining the prices of our products, we take a number of factors into consideration, including costs of raw materials, labour costs and the specification requirements of the products. We generally determine the price of our products, including 100% spun polyester sewing threads and other sewing threads, on a “cost-plus” basis, which comprises mainly the cost of raw materials, labour costs and our profit margin. Our Directors believe that our “cost-plus” pricing policy, which applies to our 100% spun polyester sewing threads and other sewing threads, enables us to pass on the increase in costs of raw materials to our customers. The average selling price of our 100% spun polyester sewing threads was approximately HK\$1.83 per km and HK\$1.89 per km for the two years ended 31 December 2016, respectively, and HK\$1.84 per km for the five months ended 31 May 2017.

## SUMMARY

### QUALITY CONTROL

We understand that good quality of our products is our competitive edge. Hence, our Group is committed to quality. Our quality control department, consisting of five staff members, is responsible for quality control. We implement various quality control measures throughout our manufacturing process to ensure that we produce quality sewing threads. Our quality management system has been accredited with ISO 9001:2008 certification since 2000. Staff members from our quality control department perform inspections and/or quality tests at each key stage of production. For details of our quality control, please refer to the section headed “Business — Quality Control” of this prospectus.

### INVENTORY MANAGEMENT

Our inventory mainly comprises raw materials and finished products. While our raw materials inventory is stored either in our warehouse or with our yarn manufacturers, the finished products inventory is only stored in our warehouse. We closely monitor our inventory level, try to minimise any waste on inventory and avoid obsolete inventory. For details of our inventory management, please refer to the section headed “Business — Inventory Management” of this prospectus.

### COMPETITION

We encounter competition from other international and local sewing thread manufacturers. Our Directors believe that the principal competitive factors include product quality, selling prices, customer base, reputation, supply stability and reliability and delivery time. According to the CIC Report, the key entry barriers to the sewing thread market in the PRC include large capital investment, abundant industrial knowledge and practical experience in the sewing thread market, efficient sales network and strict regulatory standards and requirements with respect to the environment. For further details, please refer to the section headed “Industry Overview” of this prospectus. Our Directors are of the view that our long-term stable business relationships with our customers and suppliers, our stringent quality control mechanism, our strategic location and our experienced management team help reinforce our position in the sewing threads industry as well as further expand our business.

### SHAREHOLDER INFORMATION

After completion of the Capitalisation Issue and the Share Offer, without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme, Three Gates Investment will control approximately 75% of our Company’s Shares in issue. Three Gates Investment is held as to 100% by Mr. Wong, our executive Director. Accordingly, Three Gates Investment and Mr. Wong will become a group of our Controlling Shareholders upon completion of the Capitalisation Issue and the Share Offer. For further details, please refer to the section headed “Relationship with our Controlling Shareholders” of this prospectus.

### SUMMARY OF HISTORICAL FINANCIAL PERFORMANCE

The selected combined statements of profit or loss and other comprehensive income, financial position and cash flow information for the Track Record Period set forth below is extracted from our combined financial statements included in the Accountants’ Report set out in Appendix I to this prospectus.

## SUMMARY

### Summary of combined statements of profit or loss and other comprehensive income

	<b>Year ended 31 December</b>		<b>Five months ended 31 May</b>	
	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Unaudited)	
Revenue	82,829	72,624	25,446	26,105
Gross profit	26,271	27,007	8,475	9,320
Operating profit/(loss)	9,769	3,515	(218)	(1,110)
Profit/(loss) before income tax	6,531	623	(1,529)	(2,111)
Profit/(loss) for the year/period	4,678	(477)	(1,732)	(2,471)

### Summary of combined statements of financial position

	<b>As at 31 December</b>		<b>As at 31 May</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	19,512	13,255	13,003
Current assets	130,231	105,079	114,577
Current liabilities	(79,961)	(55,238)	(65,698)
Net assets	67,411	61,385	60,169

### Summary of combined statements of cash flows

	<b>Year ended 31 December</b>		<b>Five months ended 31 May</b>	
	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Unaudited)	
Net cash generated from/(used in) operating activities	16,188	3,734	(6,486)	3,869
Adjusted cash flows from operating activities before the changes in working capital after excluding the non-recurring listing expense and severance payments	13,038	14,506	3,448	3,366
Net cash generated from/(used in) investing activities	(22,154)	19,512	9,285	(6,314)
Net cash generated from/(used in) financing activities	8,726	(23,099)	(4,914)	(964)
Net increase/(decrease) in cash and cash equivalents	2,760	147	(2,115)	(3,409)

## SUMMARY

### SUMMARY OF KEY FINANCIAL RATIOS

The table below sets out our key financial ratios during the Track Record Period:

Financial ratios	As at 31 December		As at
	2015	2016	31 May 2017
<b>Profitability ratios</b>			
1. Profit margins			
a. Gross profit margin	31.7%	37.2%	35.7%
b. Net profit/(loss) margin before interest and tax	11.8%	4.8%	(4.3)%
c. Net profit/(loss) margin	5.6%	(0.7)%	(9.5)%
2. Return on equity			
a. Return on equity	7.0%	(0.7)%	(4.1)%
b. Return on total assets	3.3%	(0.4)%	(2.0)%
<b>Liquidity ratios</b>			
1. Liquidity ratios			
a. Current ratio	1.6	1.9	1.7
b. Quick ratio	1.5	1.7	1.6
2. Turnover ratios			
a. Inventories turnover days	71.9	77.5	82.7
b. Receivables turnover days	76.6	74.8	83.6
c. Payables turnover days	49.0	62.0	85.7
<b>Capital adequacy ratios</b>			
1. Gearing ratio	86.5%	60.2%	67.4%
2. Debt to net worth ratio			
a. Net debt to equity ratio	84.0%	58.9%	65.8%
b. Interest coverage (times)	3.0	1.2	N/A

### Gross profit margin by product:

The table below sets out our Group's gross profit margin by product:

	Year ended 31 December				For the five months ended 31 May			
	2015		2016		2016		2017	
	Gross profit (HK\$'000)	Gross profit margin %	Gross profit (HK\$'000)	Gross profit margin %	Gross profit (HK\$'000)	Gross profit margin %	Gross profit (HK\$'000)	Gross profit margin %
100% spun polyester								
sewing threads	22,861	31.5	24,560	37.6	7,532	33.5	8,454	35.9
Other threads (Note)	<u>3,410</u>	33.6	<u>2,447</u>	33.3	<u>943</u>	31.9	<u>866</u>	33.7
Total	<u><u>26,271</u></u>	31.7	<u><u>27,007</u></u>	37.2	<u><u>8,475</u></u>	33.3	<u><u>9,320</u></u>	35.7

Note: Other threads comprise textured polyester sewing threads, elastic filament sewing threads and weft yarn.

## SUMMARY

### Gross profit margin by geographical location

The table below sets out our Group's gross profit margin by geographical location:

	Year ended 31 December				Five months ended 31 May			
	2015		2016		2016		2017	
	<i>Gross profit margin</i>	<i>Gross profit margin</i>	<i>Gross profit margin</i>	<i>Gross profit margin</i>	<i>Gross profit margin</i>	<i>Gross profit margin</i>	<i>Gross profit margin</i>	<i>Gross profit margin</i>
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
PRC	17,410	35.9	14,545	37.6	5,383	35.3	4,718	36.3
Hong Kong	2,341	43.1	2,888	48.4	955	43.1	1,349	45.2
Overseas ( <i>Note</i> )	<u>6,520</u>	22.5	<u>9,574</u>	34.3	<u>2,137</u>	26.8	<u>3,253</u>	32.1
Total	<u><u>26,271</u></u>	31.7	<u><u>27,007</u></u>	37.2	<u><u>8,475</u></u>	33.3	<u><u>9,320</u></u>	35.7

*Note:* During the Track Record Period, we exported our products to countries including but not limited to, UAE, Mauritius, Australia, Germany and the United Kingdom.

### SUMMARY ON MATERIAL FLUCTUATIONS IN FINANCIAL PERFORMANCE

Our overall revenue decreased by approximately HK\$10.2 million, or approximately 12.3%, from approximately HK\$82.8 million for the year ended 31 December 2015 to HK\$72.6 million for the year ended 31 December 2016, primarily as a result of the decrease in PRC sales by approximately HK\$9.7 million, or approximately 20.1%, from approximately HK\$48.4 million for the year ended 31 December 2015 to approximately HK\$38.7 million for the year ended 31 December 2016. The decrease in our PRC sales was due to the combined effects of (i) the closure of our own dyeing facilities; and (ii) the negative impact brought by foreign currency translation. Our overall revenue recorded an increase from approximately HK\$25.4 million for the five months ended 31 May 2016 to approximately HK\$26.1 million for the same period in 2017 by approximately HK\$0.7 million, or approximately 2.6%. The increase in our Group's revenue was primarily due to the growth of revenue generated from our Hong Kong and overseas customers. Our overall gross profit increased by approximately HK\$0.7 million, or approximately 2.8%, from approximately HK\$26.3 million for the year ended 31 December 2015 to approximately HK\$27.0 million for the year ended 31 December 2016. The increase in our overall gross profit was due to the increase in our gross profit for our Hong Kong and overseas markets despite a decrease in our gross profit for our PRC market. Our overall gross profit also increased by approximately HK\$0.8 million, or approximately 10.0%, from approximately HK\$8.5 million for the five months ended 31 May 2016 to approximately HK\$9.3 million for the five months ended 31 May 2017. The increase in our overall gross profit for the five months ended 31 May 2017 was attributable to the increase in our gross profit for our Hong Kong and overseas markets despite a decrease in our gross profit for our PRC market. Our gross profit margin increased from approximately 31.7% for the year ended 31 December 2015 to approximately 37.2% for the year ended 31 December 2016, details of which are disclosed in the section headed "Financial Information" of this prospectus.



## SUMMARY

### DIVIDENDS

During the Track Record Period, we did not declare any dividends. We currently have neither a pre-determined dividend payout ratio nor any dividend policy. The payment and amount of any future dividends will be at the sole discretion of our Board of Directors and will also depend on factors such as our results of operations, cash flow, capital requirements, general financial condition, future prospects and other factors that our Board of Directors deem relevant. Any final dividend for a financial year will be subject to Shareholders' approval. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. Dividends may be paid only out of our Company's distributable reserves as permitted under the relevant laws. There can be no assurance that our Company will be able to declare or distribute in the amount set out in any plan of our Board or at all. The past dividend distribution records may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future.

### REASONS FOR LISTING

Our Directors envisage that there are considerable business opportunities in the sewing threads industry, which justify the expansion plan of our Group. Our expansion plan is in line with the industry trend. Our objective of capturing more business opportunities in the sewing threads industry necessitates our fund raising through the Share Offer. Our Directors are of the view that our ability to further grow our business hinges on (1) our ability to enhance our production capacity; and (2) our ability to broaden our product range. As such, our Directors consider that it is of great importance to replace part of our machines for the production of 100% spun polyester sewing threads with more efficient ones as well as to set up new production lines for the manufacturing of nylon threads. Furthermore, our Directors believe that our Group must continue to increase our available financial resources so as to meet our working capital requirements. During the Track Record Period, our operation was funded through a combination of cash generated from our operations and bank borrowings. Given that our Group recorded the cash and cash equivalents of approximately HK\$0.5 million and had unutilised banking facilities of HK\$0.2 million as at 30 June 2017, our Directors consider that our Group's current financial resources will not be able to support our future plans. For details of our future plan, please refer to the section headed "Future Plans and Use of Proceeds" of this prospectus.

### THE OFFER STATISTICS

	<b>Based on the minimum indicative Offer Price of HK\$0.25 per Offer Share</b>	<b>Based on the maximum indicative Offer Price of HK\$0.375 per Offer Share</b>
Market capitalisation of our Shares ( <i>Note 1</i> )	HK\$200,000,000	HK\$300,000,000
Unaudited pro forma adjusted combined net tangible assets of our Group per Share ( <i>Note 2</i> )	HK\$0.119	HK\$0.149

*Notes:*

1. The calculation of the market capitalisation of our Shares is based on 800,000,000 Shares in issue immediately after completion of the Share Offer but does not take into account any Shares which may be allotted and issued upon the exercise of any option which may be granted under the Share Option Scheme or any Shares which may be allotted and issued pursuant to the Offer Size Adjustment Option.

## SUMMARY

2. The unaudited pro forma adjusted combined net tangible assets of our Group per Share has been prepared with reference to certain estimation and adjustment. Please refer to Appendix II to this prospectus for further details.

### FUTURE PLANS AND USE OF PROCEEDS

Our Directors estimate that the net proceeds from the Share Offer (after deducting the underwriting commission and estimated expenses payable by our Company in connection with the Listing, but assuming the Offer Size Adjustment Option is not exercised) will be approximately HK\$36.3 million based on the Offer Price of HK\$0.313 per Offer Share (being the mid-point of the Offer Price range between HK\$0.25 and HK\$0.375 per Offer Share). We intend to apply the net proceeds as follows:

Plans	From the			Total	Approximate % of net proceeds
	Latest Practicable Date to 31 December 2017 HK\$'000	For the six months ending 30 June 2018 HK\$'000	For the six months ending 31 December 2018 HK\$'000		
Upgrading our machinery for the production of 100% spun polyester sewing threads for industrial use	9,000	4,500	4,500	18,000	50.0
Upgrading our machinery for the production of 100% polyester sewing threads for domestic use	—	7,000	—	7,000	19.0
Acquiring new cone winding machines	—	1,200	2,600	3,800	10.0
Acquiring new machinery for the production of nylon threads	3,300	—	—	3,300	9.0
Setting up a sales office in Zhejiang province	500	500	—	1,000	3.0
<b>Total</b>	<b>12,800</b>	<b>13,200</b>	<b>7,100</b>	<b>33,100</b>	<b>91.0</b>

The remaining HK\$3.2 million, approximately 9.0% of the net proceeds, will be used for the working capital and other general corporate purposes of our Group. For details, please refer to the section headed “Future Plans and Use of Proceeds” of this prospectus.

### LISTING EXPENSES

Our estimated listing expenses primarily consist of professional fees, underwriting commission and fees incurred in connection with our Listing. Assuming the Offer Size Adjustment Option is not exercised and assuming an Offer Price of HK\$0.313 per Offer Share, being the mid-point of our indicative Offer Price range stated in this prospectus, listing expenses to be borne by our Company, which are non-recurring in nature, are estimated to be approximately HK\$26.3 million, of which approximately HK\$6.9 million is directly attributable to the issue of new Offer Shares and to be accounted for as a deduction from equity, and approximately HK\$19.4 million has been or is expected to be reflected in our combined statements of comprehensive income. Approximately HK\$6.6 million and HK\$4.3 million of the listing expenses in relation to services already performed has been reflected in the combined statements of comprehensive income of our Group for the year ended 31 December 2016 and the five months ended 31 May 2017, respectively, and the remaining amount of approximately HK\$8.5

## SUMMARY

million is expected to be reflected in the combined statements of comprehensive income of our Group for the year ending 31 December 2017. The listing expenses mentioned above are the latest practicable estimate for reference only and the estimated listing expenses are subject to adjustments based on the actual amount incurred or to be incurred. Our results of operations for the year ending 31 December 2017 is expected to be adversely affected by the non-recurring listing expenses in connection with the Listing. Hence, our Group is expected to be loss making for the year ending 31 December 2017, taking into account such non-recurring listing expenses.

### RISK FACTORS

Our Group believes that certain risks and uncertainties exist in its operations and some of them are beyond our Group's control. Our Group has categorised these risks and uncertainties into: (i) risks relating to our business industry; (ii) risks relating to our operations in the PRC; and (iii) risks relating to the Share Offer. Some of the major risks generally associated with our business include the following:

- fluctuations of raw material prices may adversely affect our profitability
- any substandard or unsatisfactory performance of our yarn manufacturers and dyeing suppliers could negatively affect our operation
- failure to maintain an effective quality control system on the manufacturing of our products could harm our business
- our Group may encounter difficulty in locating suitable dyeing suppliers owing to increasingly stringent PRC environmental laws and regulations
- any labour shortage, increase in labour costs or other factors affecting labour supply may materially and adversely affect our operation, business, financial condition, results of operations and prospects
- we may be exposed to risk of obsolescence for our inventory

As different investors may have different interpretations and criteria when determining the significance of a risk, investors should read the section headed "Risk Factors" of this prospectus in its entirety before you decide to invest the Offer Shares.

### NON-COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, we had the following non-compliance incidents: (i) non-registration of our lease agreement; (ii) failure to make contributions to the social security fund for some of our employees as required by the PRC government; and (iii) the level of air pollutants emitted by the steam boiler located at our Guangzhou Production Facilities exceeding the relevant PRC government authority with respect to the emission of air pollutants by boilers. For details of our non-compliance, please refer to the section headed "Business — Regulatory Non-compliance" of this prospectus.

## SUMMARY

### RECENT DEVELOPMENT OF OUR GROUP SUBSEQUENT TO THE TRACK RECORD PERIOD AND NO MATERIAL ADVERSE CHANGE

#### Financial updates

Our unaudited net current assets decreased from HK\$48.9 million as at 31 May 2017 to HK\$6.2 million as at 30 September 2017, which was primarily due to the (i) decrease in the amount due from a related company (Jinxin China) of approximately HK\$48.0 million, which was offset by our Group's payments for the acquisition of 20% of the issued shares of Newchamp Industries at a consideration of HK\$13.0 million and the acquisition of the entire issued shares of Tseyu International at a consideration of approximately HK\$28.0 million pursuant to the Reorganisation; and (ii) the increase in accruals of approximately HK\$1.7 million mainly as a result of the provision of listing expenses associated with our Group's Listing. Our operating industry remained relatively stable subsequent to the Track Record Period and up to 31 October 2017, being the date to which our latest management accounts were prepared, and our business and revenue model remained unchanged. Our Directors have not noticed any material changes, loss or cancellation of our existing sales orders. We had 28,047 new sales orders for the five months ended 31 October 2017 since 1 June 2017. Our Group expected that our gross profit margin will remain stable for the year ending 31 December 2017. Our Directors have confirmed that despite the increase in our cost of raw materials (i.e. cost of yarn processing and the prices of fibre and yarn) for the year ending 31 December 2017, our Group will be able to reasonably transfer such increase to our customers in order to maintain our gross profit margin. Our business model, revenue structure and cost structure basically remained unchanged subsequent to the Track Record Period and up to the 31 October 2017 (being the date to which the latest management accounts of our Group were prepared). As at 31 October 2017, the Group's had accruals for Listing expenses of approximately HK\$8.2 million. With reference to the paragraph headed "Listing Expenses" in this section, given that the total listing expenses, which are non-recurring in nature, and an amount of approximately HK\$12.8 million are expected to be recognised as expenses in the combined statements of profit or loss and other comprehensive income for the year ending 31 December 2017, we expect to be loss making for the year ending 31 December 2017. Save for the aforesaid non-recurring expenses in relation to the Listing, which will be recorded in the combined statements of profit and loss and other comprehensive income of our Group, our Directors confirm that there has been no material adverse change in the operation, financial or trading position, or prospects of our Group after 31 May 2017 (being the date to which the latest audited combined financial statements of our Group were prepared) and up to the date of this prospectus, and there is no event which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

## DEFINITIONS

*In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.*

“Accountants’ Report”	the accountants’ report set out in Appendix I to this prospectus
“AED”	United Arab Emirates dirham, the lawful currency of UAE
“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> and <b>GREEN</b> Application Form(s), or where the context so requires, any of them
“Articles of Association” or “Articles”	the articles of association of our Company, conditionally adopted on 24 November 2017 to take effect upon Listing and as amended from time to time, a summary of which is contained in the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Award”	Award Ltd., a company engaging in garment accessories wholesaling in Mauritius
“Board” or “Board of Directors”	the board of Directors of the Company
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business to the public
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of our Company as referred to in the section headed “Statutory and General Information — A. Further Information about Our Group — 3. Resolutions in Writing of our sole Shareholder passed on 24 November 2017” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant(s)”	person(s) admitted to participate in CCASS as direct participant(s) or general clearing participant(s)
“CCASS Custodian Participant(s)”	person(s) admitted to participate in CCASS as custodian participant(s)

## DEFINITIONS

“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of the HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“Cheerful Keen”	Cheerful Keen Limited (置富健有限公司) incorporated in the BVI with limited liability on 5 January 2010 and an indirect wholly-owned subsidiary of our Company
“China” or “PRC”	the People’s Republic of China and, except where the context otherwise requires and only for the purpose of this prospectus, references in this prospectus to China or the PRC exclude Hong Kong, Macau and Taiwan
“China Insights Consultancy” or “CIC”	China Insights Consultancy Limited, a market research and consulting company and an industry expert, which is an Independent Third Party
“Chinese Government” or “PRC Government”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
“CIC Report”	an independent market research dated 30 November 2017, commissioned by our Company on the PRC sewing thread market and prepared by China Insights Consultancy
“Circular 37”	the PRC Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investment by Domestic Residents via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) promulgated by the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) on 4 July 2014
“close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

## DEFINITIONS

“Companies Law” or “Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Shen You Holdings Limited (申酉控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 18 August 2016
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling Shareholder(s)” or “our Controlling Shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules and, unless the context otherwise requires, refers to Three Gates Investment and Mr. Wong
“Corporate Governance Code”	Appendix 15 to the GEM Listing Rules as amended, supplemented or otherwise modified from time to time
“CSRC”	China Securities Regulatory Commission* (中華人民共和國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
“Deed of Indemnity”	the deed of indemnity dated 24 November 2017 entered into between, among others, the Controlling Shareholders and our Company as referred to in the section headed “Statutory and General Information — B. Information about our Business — 1. Summary of material contracts” in Appendix IV to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 24 November 2017 given by each of the Controlling Shareholders in favour of our Company as set out in the section headed “Relationship with our Controlling Shareholders — Non-competition undertakings” of this prospectus
“Director(s)”	the director(s) of our Company
“Foshan Zhihua”	Foshan Jing Xin Threads Industry Limited (佛山市景信線業有限公司*), formerly known as 佛山市至華線業有限公司 (Foshan Zhihua Thread Co., Ltd.*), a company established in the PRC with limited liability on 23 January 2014 and disposed of to an Independent Third Party on 20 June 2016
“GEM”	the Growth Enterprise Market of the Stock Exchange

## DEFINITIONS

“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include CCASS Operational Procedures
“GREEN Application Form(s)”	the application form(s) to be completed by the <b>HK eIPO White Form Service Provider</b>
“Group”, “our Group”, “we”, “our” or “us”	our Company and its subsidiaries or, where the context to requires in respect of the period before our Company became the holding company of its existing subsidiaries, the existing subsidiaries of our Company
“Guangzhou Production Facilities”	the production facilities, which are located in Liwan, Guangzhou, operated by our Group for the manufacturing of our sewing threads
“Guangzhou Xinhua”	廣州新華線業有限公司 (Guangzhou Xinhua Thread Co., Ltd.), a company established in the PRC with limited liability on 18 June 1993 and an indirect wholly-owned subsidiary of our Company
“HK\$” or “Hong Kong dollars” or “HK dollars”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HK eIPO White Form”	the application form of Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at <b>www.hkeipo.hk</b>
“HK eIPO White Form Service Provider”	the <b>HK eIPO White Form</b> service provider designated by our Company, as specified on the designed website at <b>www.hkeipo.hk</b>
“HKFRSs”	Hong Kong Financial Reporting Standards, which include the Hong Kong Accounting Standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, the branch share registrar and transfer office of our Company in Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC



## DEFINITIONS

“Huabang Securities”	Huabang Securities Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the GEM Listing Rules) any directors, chief executive or substantial shareholders of our Company, our subsidiaries or any of their respective associates
“International Sanctions”	sanctions-related laws and regulations issued by the U.S. government, the European Union, the United Nations or the Australian government
“Jinxin China”	Jinxin China Limited (金鑫中國有限公司), a company incorporated in Hong Kong with limited liability on 12 February 1999 which is owned by Mr. Wong, an executive Director and one of our Controlling Shareholders
“Joint Lead Managers”	Huabang Securities, Quasar Securities, Long Asia Securities and Yue Xiu Securities, being the joint lead managers of the Share Offer
“Latest Practicable Date”	21 November 2017, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus
“Listing”	the listing of our Shares on GEM
“Listing Date”	the date, expected to be on or about 15 December 2017, on which dealings in our Shares first commence on GEM
“Listing Division”	the listing division of the Stock Exchange
“Long Asia Securities”	Long Asia Securities Limited, a licensed corporation to carry out type 1 (dealing in securities) regulated activity under the SFO
“Macau”	the Macau Special Administrative Region of the PRC
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company, adopted on 24 November 2017, as supplemented, amended or otherwise modified from time to time, a summary of which is set out in Appendix III to this prospectus
“Ministry of Finance” or “MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)

## DEFINITIONS

“Mr. Wong”	Mr. Wong Kwok Wai, Albert (黃國偉), our executive Director and one of our Controlling Shareholders
“MUR”	Mauritian Rupee, the lawful currency of Mauritius
“Newchamp Industries”	Newchamp Industries Limited (新中港實業有限公司), a company incorporated in Hong Kong with limited liability on 18 March 1993 and an indirect wholly-owned subsidiary of our Company
“NPC” or “National People’s Congress”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“OFAC”	the United States Department of Treasury’s Office of Foreign Assets Control
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee payable thereon) which will be not more than HK\$0.375 per Offer Share and is expected to be not less than HK\$0.25 per Offer Share at which the Offer Shares are to be offered for subscription pursuant to the Share Offer, to be determined as further described in the section headed “Structure and Conditions of the Share Offer” of this prospectus
“Offer Shares”	collectively, the Placing Shares and the Public Offer Shares
“Offer Size Adjustment Option”	the option granted by our Company to the Underwriters exercisable by the Sole Bookrunner (for itself and on behalf of the Placing Underwriters), at their sole and absolute discretion under the Underwriting Agreement to require our Company to issue up to an additional 30,000,000 Shares, representing 15% of the number of the Offer Shares, at the Offer Price, details of which are described in the section headed “Structure and Conditions of the Share Offer” of this prospectus
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters for and on behalf of our Company at the Offer Price as further described in the section headed “Structure and Conditions of the Share Offer” of this prospectus
“Placing Shares”	the 180,000,000 new Shares (subject to reallocation and the Offer Size Adjustment Option) offered by our Company at the Offer Price for subscription under the Placing subject to the terms and conditions as described in the section headed “Structure and Conditions of the Share Offer” of this prospectus

## DEFINITIONS

“Placing Underwriters”	the underwriters of the Placing Shares who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares
“Placing Underwriting Agreement”	the conditional underwriting agreement relating to the Placing to be entered into between, amongst others, our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Placing Underwriters, particulars of which are summarised in the section headed “Underwriting — Underwriting Arrangements and Expenses” of this prospectus
“PRC Company Law”	the Company Law of the PRC 《中華人民共和國公司法》 enacted by the Standing Committee of the NPC on 29 December 1993 and was amended on 25 December 1999, 28 August 2004, 27 October 2005, and 28 December 2013, respectively
“PRC Legal Adviser”	King & Wood Mallesons, legal adviser as to the laws of the PRC
“Price Determination Agreement”	the agreement to be entered into between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters) on or around the Price Determination Date to determine and record the Offer Price
“Price Determination Date”	the date, expected to be on or around Monday, 11 December 2017, or such other date as may be agreed between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters), on which the Offer Price is determined by entering into the Price Determination Agreement, but in any event not later than Monday, 11 December 2017
“Public Offer”	the offer of the Public Offer Shares for subscription by the member of the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in the section headed “Structure and Conditions of the Share Offer” of this prospectus
“Public Offer Shares”	the 20,000,000 new Shares (subject to reallocation) initially being offered by our Company for subscription in the Public Offer, as described under the section headed “Structure and Conditions of the Share Offer” of this prospectus
“Public Offer Underwriters”	the underwriters of the Public Offer Shares whose names are set out in the section headed “Underwriting — The Public Offer Underwriters” of this prospectus

## DEFINITIONS

“Public Offer Underwriting Agreement”	the underwriting agreement dated 29 November 2017 relating to the Public Offer entered into between, amongst others, our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Bookrunner the Joint Lead Managers and the Public Offer Underwriters, details of which are set forth in the section headed “Underwriting — Underwriting Arrangement and Expenses — The Public Offer — Public Offer Underwriting Agreement” of this prospectus
“Quasar Securities”	Quasar Securities Co., Limited, a licensed corporation to carry out type 1 (dealing in securities) regulated activity under the SFO
“Regulation S”	Regulation S under the U.S. Securities Act
“Relevant Securities”	any of the Shares in respect of which our Controlling Shareholder(s) is shown by this prospectus to be the beneficial owner
“Reorganisation”	the reorganisation arrangements we have undergone in preparation for the listing of Shares on the Stock Exchange which are more particularly described in the section headed “History, Reorganisation and Corporate Structure” of this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	PRC State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration
“SAIC”	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“Sanctioned Country(ies)”	countries regarding which governments such as the United States or Australia, or governmental organisations, such as the European Union or the United Nations, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries
“Sanctioned Person(s)”	certain person(s) and entity(ies) listed on the United States Department of Treasury’s Office of Foreign Assets Control Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the European Union, the United Nations or Australia

## DEFINITIONS

“SAT”	the State Administration of Taxation of the PRC* (中華人民共和國國家稅務總局)
“SCNPC”	the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital of our Company with a nominal value of HK\$0.01 each
“Shareholder(s)”	holder(s) of Share(s) from time to time
“Share Offer”	collectively, the Placing and the Public Offer
“Share Option Scheme”	the share option scheme our Company conditionally approved and adopted on 24 November 2017, the principal terms of which are summarised in the section headed “Statutory and General Information — D. Other Information — 1. Share Option Scheme” in Appendix IV to this prospectus
“Sinopec”	Sinopec Shanghai Petrochemical Company Limited, a company incorporated in the PRC and listed on the Hong Kong Stock Exchange (HKEX stock code: 00338), Shanghai Stock Exchange (SSE stock code: 600688) and New York Stock Exchange (NYSE stock code: SHI)
“Sole Bookrunner”	Huabang Securities being the sole bookrunner of the Share Offer
“Sole Sponsor”	Huabang Corporate Finance Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strat Tech Holdings”	Strat Tech Holdings Limited, a company incorporated in BVI with limited liability on 25 August 2016 and a direct wholly-owned subsidiary of our Company
“Stylo”	STYLO TRADERS (L.L.C.), a company engaging in garment accessories wholesaling in Dubai, UAE

## DEFINITIONS

“subsidiary(ies)”	has the meaning ascribed thereto under the GEM Listing Rules
“Substantial Shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Three Gates Investment”	Three Gates Investment Limited, a company incorporated in BVI with limited liability on 15 August 2016 which is wholly owned by Mr. Wong, an executive Director and one of our Controlling Shareholders
“Track Record Period”	the period comprising the two financial years ended 31 December 2016 and the five months ended 31 May 2017
“Tseyu International”	Tseyu International Trading Company Limited (至裕國際貿易有限公司), a company incorporated in Hong Kong with limited liability on 17 March 1978 and an indirect wholly-owned subsidiary of our Company
“UAE”	the United Arab Emirates
“Underwriter(s)”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“United Kingdom” or “U.K.”	the United Kingdom
“United States” or “U.S.”	the United States of America
“United States or Canadian Person”	any national or resident of the United States or Canada, or any corporation, pension, profit-sharing or other trust or other entity organized under the laws of the United States or Canada or of any political subdivision thereof (other than a branch located outside the United States and Canada of any United States or Canadian Person), and shall include any United States or Canadian branch of a person who is otherwise not a United States or Canadian Person
“U.S. dollars” or “US\$” or “USD”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

## DEFINITIONS

“WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicant’s or applicants’ own name(s)
“YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS
“Yue Xiu Securities”	Yue Xiu Securities Company Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO
“%”	per cent

*Unless expressly stated or the context otherwise requires, all data in this prospectus are as at the date of this prospectus.*

*Unless otherwise specified, all references to any shareholdings in our company assume no exercise of the Offer Size Adjustment Option.*

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

*In this prospectus, unless otherwise stated, certain amounts denominated in Hong Kong dollars have been translated into Renminbi at the then prevailing exchange rates. The exchange rates used in this prospectus are for illustration purposes only. Such conversions shall not be construed as representations that amounts in Hong Kong dollars were or could have been or could be converted into Renminbi at such rates or any other exchange rates on such date or any other date.*

*The English names of PRC nationals, enterprises, entities, departments, facilities, certificates, titles and the like are translations of their Chinese names and are for identification purposes only.*

## GLOSSARY

*This glossary contains an explanation of certain technical terms used in this prospectus as they relate to our Company and as they are used in this prospectus in connection with our business or us. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.*

“CAGR”	compound annual growth rate, a measurement to assess the growth rate of value over time
“GDP”	Gross Domestic Product
“ISO”	the <i>International Organisation for Standardisation</i> , a worldwide federation of national standards bodies from all over the world
“ISO 9001”	the international standards of quality management and quality assurance formulated by ISO Technical Committee 176 (ISO/TC 176) in 1987, the most recent upgraded version of which was released in September 2015
“kg”	kilogramme(s)
“km”	kilometre(s)
“m”	metre(s)
“overlock stitching”	overlock stitching is a kind of stitching that sews over the edge of fabric to prevent it from fraying
“sewing thread”	a long thin standard of fibre, nylon or cotton used in sewing
“sq.m.”	square metres
“tonne(s)”	metric tonne(s); one tonne is equal to 1,000 kg
“topstitching”	topstitching is a single or multiple set of lines of stitching showcased on the outside of a garment or fabric, either for decorative or functional purposes
“yarn”	a long continuous length of interlocked polyester fibres or staple cotton



## FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, including, without limitation, words and expressions such as “expect”, “believe”, “plan”, “intend”, “project”, “anticipate”, “seek”, “may”, “will”, “would”, “should”, “ought to”, “could”, “estimate”, “potential” or similar words or statements, in particular, in the sections headed “Business”, “Financial Information” and “Industry Overview” in this prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including but not limited to the risk factors described in this prospectus, and the following:

- our business and prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, objectives and goals;
- general economic conditions;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our ability to control or reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- certain factors set out in the sections headed “Financial Information”, “Industry Overview” and “Business” of this prospectus.

We caution you that, subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to the intentions of our Company or any of our Directors are made as at the date of this prospectus. Any such intentions may potentially change in light of future developments.

## RISK FACTORS

*You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Offer Shares. The business, financial condition or results of operations of our Group could be materially adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to our Company or which our Company currently deems immaterial may arise or become material in the future and may have a material adverse effect on our Company. These risk factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as of the Latest Practicable Date, will not be updated after the date hereof, and is subject to the reservations in the section headed “Forward-looking Statements” of this prospectus.*

Our Group considers that certain risks are involved in its business and operations as well as in connection with the Share Offer. Such risks can be categorised into: (i) risks relating to our business and industry; (ii) risks relating to our operations in the PRC; and (iii) risks relating to the Share Offer.

### **RISKS RELATING TO OUR BUSINESS AND INDUSTRY**

#### **Fluctuations of raw material prices may adversely affect our profitability**

The raw materials we use in our manufacturing process primarily consist of fibre and yarn. All of our raw materials are sourced from suppliers based in the PRC. For the two years ended 31 December 2016 and the five months ended 31 May 2017, the total consumption of fibre accounted for approximately 15.8%, 11.3% and 14.4% of the total cost of sales, respectively. Our weighted average unit purchase price for fibre, being our major raw material for the production of sewing threads, was approximately RMB7,775 per tonne, RMB7,344 per tonne and RMB8,247 per tonne for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

We also purchase yarn for the manufacturing of our sewing threads. Our yarn suppliers process the fibre they purchase into yarn and offer it for sale. The selling price of yarn may vary with their procurement cost of fibre. For the two years ended 31 December 2016 and the five months ended 31 May 2017, the total consumption of yarn accounted for approximately 12.8%, 19.8% and 16.6% of the total cost of sales, respectively. Our average unit purchase price for yarn, being also our major raw material, was approximately RMB16.8 per kg, RMB15.3 per kg and RMB17.4 per kg for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

Fluctuations in prices of raw materials are subject to various factors, including but not limited to, government control and policies, availability of supply and economic conditions in the PRC, all of which may have an impact on their respective market prices from time to time. For details of the average unit purchase price of raw materials and certain hypothetical illustrations during the Track Record Period, please refer to the section headed “Financial Information — Factors affecting our results of operations and financial condition — Fluctuation in cost of sales” of this prospectus.

## RISK FACTORS

In the event that the prices of our raw materials increase, we may not be able to pass the price increase, in whole or in part, on to our customers, or in some cases, there is a delay before we are able to do so effectively as it takes time to adjust the selling prices of our products. Our inability to pass on or a delay in passing on price increases on to our customers could adversely affect our operating margins and cash flow, resulting in lower operating income and profitability.

**We do not enter into long-term supply contracts with our suppliers and our production cost and schedule may be materially affected if we fail to secure supply**

Our Group does not enter into any long-term supply contracts with our suppliers. We procure our raw materials based on the volume of our sales orders. With respect to the procurement of fibre, we enter into annual agreements with our fibre supplier, containing terms regarding, among others, the target purchase amount on which we intend to purchase for the ensuing year. The selling price of the fibre we purchase is subject to monthly price adjustments. With respect to the procurement of yarn production and dyeing services, we place orders with our yarn manufacturers and dyeing suppliers on an order-by-order basis. However, our suppliers may decide not to accept our orders on the same or similar terms in the future. Further, there is no assurance that our suppliers would be able to supply the raw materials or services to us in a timely manner or the raw materials delivered or services performed by our suppliers to us are up to our standard. Even if our suppliers continue to provide raw materials or services for us, they may substantially reduce the production capacity allocated to us, significantly increase the prices of the raw materials or processing work or terminate their business relationship with us.

In addition, prolonged interruptions on the operation of our yarn manufacturers or dyeing suppliers could also arise from a number of factors, including power or water shortage, labour strikes, riots, fire, any abrupt change in the relevant PRC laws and regulations or any other events that may be beyond our control. Any of the above-mentioned events may materially and adversely affect the operations of our yarn manufacturers or dyeing suppliers, which would in turn cause a negative impact on our business, financial condition, results of operations and prospects.

In case any of the above occurs, our production schedule and business could be materially and adversely affected. Further, we may not be able to find alternative suppliers to provide raw materials or to undertake processing work of a similar quality on terms acceptable to us, including costs and delivery time. As such, our production could be interrupted, which would in turn adversely affect our business, financial condition and operation results.

**Any substandard or unsatisfactory performance of our yarn manufacturers and dyeing suppliers could negatively affect our operation**

During the Track Record Period, our Group subcontracted the yarn production and the dyeing processes to our suppliers. Upon delivery of the processed products to us, we perform quality control to ensure they are of satisfactory quality. During the Track Record Period, we had not received any material claims or complaints from our customers in respect of the quality of our products. However, there is no assurance that these yarn manufacturers and dyeing suppliers will fully comply with our requirements or the quality of their services will be to our satisfaction. Further, there is no assurance that these yarn manufacturers and dyeing suppliers will be able to deliver the processed yarns or the

## RISK FACTORS

dyed sewing threads to us on time. In the event that the performance of any of these suppliers fails to meet our requirements or standards, our business, reputation, financial condition and operation results would be materially and adversely affected.

**We do not enter into long-term agreements with our customers and failure to secure our customers' purchase orders may materially affect our financial condition and results of operations**

We do not enter into long term agreements with our customers obligating them to place orders with us. Instead we sell our sewing threads to our customers based on individual orders they place from time to time. We cannot assure you that our customers will continue to place orders with us. Further, there is no assurance that our customers will order the same quantity of our sewing threads as in their previous orders or place orders with us at an interval similar to their usual one. Should our major customers reduce the amount of purchase from us, place orders with us less frequently or cease to purchase from us, our business, financial condition and results of operations may be materially and adversely affected.

**We may not be able to retain members of our management team and any loss of key personnel may adversely affect our business, financial condition and results of operations**

Our management team, comprising our executive Directors and senior management, is well-equipped with ample managerial experience, extensive operational expertise and profound market knowledge of the sewing threads industry in the PRC. For details of our Directors and senior management, please refer to the section headed "Directors and Senior Management" of this prospectus. The future performance and success of our Group depend, to a large extent, on our ability to retain and motivate members of our management team. However, we cannot assure you that we will be able to retain members of our management team and other key personnel or recruit additional competent personnel for sustaining our business as well as implementing our expansion plans. Any loss of members of our management team or key personnel without immediate and adequate replacement may even reduce our competitiveness, affect our production planning and implementation, lower the manufacturing quality or cause customer dissatisfaction. Our key personnel include Mr. Wong and Mr. Lee Wing Hong, our executive Directors, and the members of our senior management team, namely, Mr. She Siu Ming, Ms. Liu Jinghui, Mr. Lui Hak Kong and Mr. Wong Pak Yip. Further, should any member of our management team join our competitor, our Group may lose customers, suppliers and other key staff members. As a result, our business, financial condition and results of operations may be materially and adversely affected.

**Any unexpected disruption in our Guangzhou Production Facilities could materially and adversely affect our business operation**

Our manufacturing process relies on a constant and sufficient supply of utilities, including electricity. During the Track Record Period, we had not experienced any material disruption in our manufacturing process owing to power failure or water supply failure. However, there is no assurance that our Guangzhou Production Facilities will not suffer power failure or water supply failure, which may cause a disruption in our operation.

## RISK FACTORS

In addition, in the event of fire, drought, floods or other natural disasters, political instability, riots or civil unrest, extended outage of critical utilities or transportation systems, terrorist attacks or any other events that may limit or disrupt our ability to operate our Guangzhou Production Facilities, we may incur substantial losses, including loss of revenue from the production being disrupted and substantial additional expenditure on repairs or replacement of our damaged machinery or equipment. In addition, the production capacity of our Guangzhou Production Facilities would be negatively affected. As a result, our ability to fulfil our customers' orders or meet our delivery obligations would be significantly impacted, which would impair our business relationships with our customers. Our business, financial condition, results of operations and prospects would be materially and adversely affected.

**A significant portion of our revenue was primarily derived from the orders placed by our five largest customers and any substantial decrease in the amounts of purchase from our major customers and any liquidity problems of our major customers may materially and adversely affect our financial condition and results of operations**

A significant portion of our revenue was derived from orders placed by our five largest customers during the Track Record Period. For the two years ended 31 December 2016 and the five months ended 31 May 2017, our five largest customers accounted for 39.7%, 43.3% and 49.1% of our revenue, respectively. During the Track Record Period, sales to our largest customer accounted for 26.8%, 28.3% and 32.0% of our revenue, respectively.

There is no guarantee that our Group will be able to continually obtain orders or secure orders of considerable amounts from our major customers in the future. If there is a substantial decrease in the amounts of purchase from our major customers and we are not able to secure orders for comparable purchase amounts from new customers as a replacement, our business, financial condition and results of operations may be materially and adversely affected.

In addition, in the event that our major customers experience any liquidity problems, delays or defaults in making payments to us may be caused, which may also materially and adversely affect the business, financial position and prospects of our Group. For details of our major customers, please refer to the section headed "Business — Our customers" of this prospectus.

**Failure to maintain an effective quality control system on the manufacturing of our products could harm our business**

Maintaining good product quality is crucial to our Group's success. We therefore count on an effective control system, which in turn rests on a number of factors, including the design and implementation of the system as well as our ability to ensure the adherence of our quality control staff to the relevant policies and guidelines. During the Track Record Period, we had not experienced any material complaints from our customers in relation to the quality of our products. However, there is no assurance that we are able to continue to maintain effective quality control on the manufacturing of our sewing threads in the future. Any failure to properly adopt or deterioration of our quality control system could result in the manufacturing of defective or substandard products, delays in the delivery of our products, the need for replacement, complaints from customers, loss of purchase orders in the future and damage to our Group's reputation. Further, in the event that our products do not meet the specifications and requirements agreed with or requested by our customers, or if our defective or substandard products result in customers suffering losses arising from product liability claims, our Group may be subject to product liability claims and litigation, claims for indemnity by our customers and other claims for

## RISK FACTORS

compensation. Regardless of the outcome of any claim of the alleged defect, we may incur significant legal costs. Product failures or defects, any complaints from customers or negative publicity could lead to a decrease in sales of the relevant and/or other products, which could materially and adversely affect our business, financial condition and results of operations.

### **Our Group's business may be affected by seasonality**

Our Group's business is subject to seasonality. During the Track Record Period, our Group recorded relatively lower revenue in the months of January and February. Our Group believes that it is mainly due to the fact that a majority of our customers, being garment manufacturers, have their factories closed during the Chinese New Year holidays. Further, our Guangzhou Production Facilities do not operate during the Chinese New Year holidays. As a result, our revenue generated in January and February of 2015 and 2016 accounted for only 11.5% and 7.9% of the total revenue during the respective years. As such, any comparison of sales and results of operations between periods within a single financial year for our Group may not be meaningful and should not be relied upon as an indicator of our Group's performance.

### **Our Group may encounter difficulty in locating suitable dyeing suppliers owing to increasingly stringent PRC environmental laws and regulations**

Our Group has engaged external dyeing suppliers to perform the dyeing process for our products since May 2016. The operation of dyeing facilities of these dyeing suppliers is subject to various national and local PRC environmental laws and regulations, which impose standards on the emission and treatment of pollutants created during the dyeing process. In addition, these dyeing suppliers may require various environmental protection assessment approvals and acceptances from the relevant PRC Government authorities for their operation. On account of the PRC's increasing awareness of environmental issues, both national and local PRC environmental laws and regulations may become more stringent over time. We cannot assure you that the national or local authorities will not enact additional laws or regulations or amend or enforce new regulations in a more rigorous manner. Such possibility of increasingly stringent PRC environmental laws and regulations could cause certain dyeing suppliers to move their dyeing facilities to more suitable areas or incur higher costs in ensuring that their dyeing operations are in compliance with the relevant PRC environmental laws and regulations. Some dyeing suppliers may consider ceasing their business. As a result, we may encounter greater difficulty in locating suitable dyeing suppliers in the vicinity, which may materially and adversely affect our business operations.

Moreover, in the event that our dyeing suppliers incur extra costs to ensure compliance with PRC environmental laws and regulations, they may pass on such extra costs to us and charge us higher subcontracting fees for the dyeing process subcontracted. Such increase in our dyeing costs will increase our cost of sales, which will affect our results of operations as well as financial condition.

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**Any labour shortage, increase in labour costs or other factors affecting labour supply may materially and adversely affect our operation, business, financial condition, results of operations and prospects**

The production of our sewing threads is a mechanised and automated process. Despite this, we still rely on skilled workers at various stages of our operation, including adjusting length meters, replacing cones, checking measurements and packaging our finished products. To support the production of our 100% spun polyester sewing threads for industrial use and our 100% spun polyester sewing threads for domestic use, our Guangzhou Production Facilities require two shifts a day and one shift a day, respectively. Approximately 11 workers are allocated for each shift. Our performance relies on the steady supply of labour in the PRC. For the two years ended 31 December 2016 and the five months ended 31 May 2017, our direct labour costs (excluding Directors' remuneration) accounted for approximately 12.2%, 9.2% and 6.4% of our total cost of sales, respectively. There is no assurance that we can secure sufficient number of workers to meet our production needs, or that our labour costs will not increase. Should we fail to retain our existing workers and/or recruit sufficient workers in a timely manner, we may not be able to achieve our target production capacity, accommodate any sudden increase in the demand for our products or implement our expansion plans. Further, failure to recruit replacement staff could reduce our competitiveness, which would in turn impact on our operations and business.

Labour costs are determined by the demand for and supply of labour and economic factors, including the inflation rate and standard of living. In addition, labour costs may also be affected by other factors like a shortage of skilled workers and growing industry demands for skilled workers. According to the CIC Report, average annual labour costs in Guangdong province are expected to increase at a CAGR of 9.9% between 2016 and 2021, reaching approximately RMB102,000 by 2021. There is no assurance that the wage rates we can offer are competitive enough for retaining our workers. Further, we cannot guarantee that the minimum wage in the PRC will not increase. We may need to increase our wage rates for the purpose of retaining our existing workers or recruit new workers or meeting the new minimum wage requirements in the PRC. An increase in our direct labour costs would increase our operating costs. However, we may not be able to pass on all or part of such increase in direct labour costs to our customers. As a result, our business, financial condition, results of operations and prospects could be materially and adversely affected. For details in relation to the trends of labour costs in the PRC, please refer to the section headed "Industry Overview — Overview of The Sewing Threads Industry in Guangdong" of this prospectus.

Further, if labour disputes, work stoppages or strikes take place in our Guangzhou Production Facilities, our operation may be disrupted. During the Track Record Period, we had not experienced any labour disputes, work stoppages or strikes in our Guangzhou Production Facilities. However, we cannot guarantee that the above-mentioned labour issues will not occur in our Guangzhou Production Facilities or we will be able to deal with these issues shortly when any of them occurs. If a labour dispute, a work stoppage or a strike takes place and we fail to deal with it shortly, our operation could be materially and adversely affected, which would in turn negatively impact on our business, financial condition, results of operations and prospects.

## RISK FACTORS

**Our Group recorded negative net operating cash flow for the five months ended 31 May 2016 and negative cash and cash equivalent at the end of the Track Record Period, and its liquidity and financial condition may be materially and adversely affected if our Group records negative net operating cash flow or negative cash and cash equivalent in the future**

Our Group recorded negative net operating cash flow for the five months ended 31 May 2016 and negative cash and cash equivalent at the end of the Track Record Period, and its liquidity and financial condition may be materially and adversely affected if the Group records negative net operating cash flow or negative cash and cash equivalent in the future.

Our Group recorded negative net operating cash flow of approximately HK\$6.5 million for the five months ended 31 May 2016. In addition, our Group has negative cash and cash equivalents of approximately HK\$7.6 million at the end of the Track Record Period. For details of our Group's historical reasons for incurring negative net operating cash flow, please refer to the section headed "Financial Information — Results of Our Operations — Net cash generated from/(used) in operating activities". Our Group's liquidity and financial condition may be materially and adversely affected should its future net operating cash flow become negative, and we can give no assurance that our Group will have sufficient cash from other sources to fund the operations of our Group. If our Group resorts to other financing activities to generate additional cash, our Group will incur additional financing costs, and we cannot guarantee that our Group will be able to obtain the financing on terms acceptable to it, or at all. Negative net operating cash flow or negative cash and cash equivalent requires our Group to obtain sufficient external financing to meet the financial needs and obligations of our Group. If our Group is unable to do so, our Group will be in default of its payment obligations and may not be able to implement our business strategies or expansion as planned. As a result, the business, financial condition and results of operations of our Group will be materially and adversely affected.

### **We may be exposed to risk of obsolescence for our inventory**

Our business operation involves storage and stocking of mainly raw materials and finished products. We implement measures and procedures with a view to closely monitoring our inventory level and avoiding obsolete inventory. As at 31 December 2015, 31 December 2016 and 31 May 2017, with respect to raw materials, we had maintained an inventory balance amounting to approximately HK\$3.8 million, HK\$4.0 million and HK\$3.4 million, respectively. With respect to finished products, we had maintained an inventory balance amounting to approximately HK\$4.0 million, HK\$3.5 million and HK\$3.5 million, respectively for the corresponding periods. Neither obsolete raw materials inventory nor obsolete finished products inventory had been recorded during the Track Record Period. However, there is no assurance that our inventory will not be subject to risk of obsolescence arising from changes in consumers' preferences or introduction of new products in the market, which may lead to decreased demand for and thus, overstocking of certain products from us.

If we fail to manage our inventory effectively, the aforesaid risk of obsolete inventory may be heightened, which will cause a decline in inventory values as well as significant inventory write-offs. Further, we may be required to lower the selling prices in order to reduce the inventory level, which will lead to lower gross margins. Should any of these situations occur, our results of operations and financial condition may be materially and adversely affected.



## RISK FACTORS

### **We could be adversely affected as a result of our sewing thread products being distributed to certain countries that are subject to evolving economic sanctions of the U.S., the United Nations, the EU, Australia and other relevant sanctions authorities**

The U.S. and other jurisdictions or organisations, including the EU, the United Nations and Australia, have comprehensive or broad economic sanctions targeting Sanctioned Countries. These sanctions programmes are reviewed or amended by sanctions authorities from time to time, and new requirements or restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable.

During the Track Record Period, we provided sewing thread products to one customer located in Russia, and our revenue derived from these transactions was approximately HK\$0.4 million and HK\$0.4 million, respectively, which accounted for approximately 0.5% and 0.5% of our total revenue for the two years ended 31 December 2016, respectively. We ceased our business relationship with such customer in May 2016. We may continue to deliver our sewing thread products from time to time to Russia. Please refer to the section headed “Business — Business Activities in Russia” of this prospectus for details of our business operations in the Sanctioned Countries. Various sanctions authorities have recently amended the sanctions that apply to business transactions with entities in Russia, particularly after the U.S. presidential election in November 2016, and further changes could be made in the future. We cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels or any policy or regulations by the EU, the United Nations, Australia and other applicable jurisdictions with respect to any current or future activities by us or our affiliates in the Sanctioned Countries and/or with Sanctioned Persons. Further, we cannot provide any assurance that our future business will be free of risk under sanctions implemented in these governments or organisations, or that our business will conform to the expectations and requirements of the U.S. or other government authorities. Our business and reputation could be adversely affected if any government regulatory authority or organisation were to determine that any of our activities constitutes a violation of the sanctions they impose.

### **We may not be able to meet the regulatory requirements imposed by our export destinations**

During the Track Record Period, our products were exported to foreign countries including UAE, Mauritius, Australia, Germany and the United Kingdom. There is no assurance that the PRC Government will not impose additional regulatory requirements on our export sales. In addition, certain countries to which we currently export or will export our products may impose technical, safety or other requirements on the export, distribution and/or sales of our products, which may be different from or more stringent than the standards imposed on us by the PRC Government. These countries may also require us to obtain various approvals, certificates, registrations or other documents in order to carry out our export sales. During the Track Record Period and up to the Latest Practicable Date, we had in all material respects complied with all laws and regulations applicable to us as well as relevant to our export sales in our destination countries by completing all the necessary procedures to obtain all the requisite approvals, certificates, registrations or any other documentation required from the relevant government authorities in our destination countries relevant to the products we exported. Despite this, we still depend on our customers to complete our export sales and they are responsible for complying with other aspects of the relevant foreign import laws and regulations. As such, we cannot assure you that all of our customers will act in compliance with the relevant aspects of foreign laws and regulations

## RISK FACTORS

relevant to our export sales. If we or our customers fail to observe the laws and regulations as well as standard requirements relevant to our export sales, we may have to face regulatory actions or claims for significant changes, which may have a material and adverse impact on our business, results of operations, financial condition and prospects.

### **We may not be able to maintain our current market position or implement our expansion plans and such failure may affect our business and financial performance**

The maintenance of our current market position and the implementation of our expansion plans may be hindered by risks including, but not limited to, cultural differences, instability or changes in the political, regulatory or economic environment, lack of understanding of the local business environment, financial and management system or legal system, differences in legal burdens in complying with local laws and regulations, changes in the safety standards and certification requirements, stringent product liability and warranty requirements, potentially adverse tax consequences, competition within the local market and volatility in currency exchange rates.

There is no assurance that we will be able to successfully maintain or expand our market coverage or expand our business after our resources are deployed. Should we fail to maintain our current market position or implement our expansion plans, our business, financial condition, results of operations and prospects could be materially and adversely affected.

### **Our Group has limited insurance coverage and may incur significant losses resulting from product liability claims or interruptions in our operations**

Given that the insurance industry in the PRC is still at an early stage of development, the availability of business insurance products offered by insurance companies in the PRC is limited. Our Group takes out various insurance covering our properties, including our leased properties in Liwan, Guangzhou and Hong Kong, machinery and equipment, raw materials and finished products. However, there is no assurance that the insurance we have taken out is sufficient to cover our properties. In the event that we suffer a loss to any of our properties in an amount exceeding our insurance coverage, we may not be able to recover the loss that is uninsured. As a result, we may have to pay out of our own resources for any uninsured financial or other losses, damages and liabilities, litigation or business disruption. The occurrence of certain incidents, including earthquakes, fire, severe weather condition, war, floods, power outages, terrorist attacks or other disruptive events and the consequences, damages and disruptions resulting from such events may not be fully covered by our insurance policy. If there occurs a disruption or interruption in our business operations for a substantial period of time, we could incur costs and losses that could materially and adversely affect our business, financial condition and results of operations.

## **RISK FACTORS**

### **We have previously been involved in certain incidents of non-compliance with certain regulatory requirements in the PRC and may be subject to liabilities**

The operations of our Guangzhou Production Facilities are required to comply with various laws, regulations and requirements in the PRC in relation to various aspects, including business registration, employee protection and environmental protection, among which certain material ones are summarised in the section headed “Regulatory Overview” of this prospectus. Should we fail to comply with or meet these laws, regulations and requirements, we may be subject to fines or other remedial measures. Besides, our Group may incur additional costs to ensure compliance in case of changes in the relevant requirements in the future. During the Track Record Period and up to the Latest Practicable Date, we had been involved in a number of non-compliance incidents, including the failure to register our lease agreement with respect to our Guangzhou Production Facilities, warehouse and PRC office, the failure to make social security contributions for some of our employees and the level of air pollutants emitted in the course of our dyeing process exceeding the relevant environmental standard. It is possible that prosecution may be taken against us or the respective directors of our subsidiaries for the non-compliance that had occurred during the Track Record Period. For details of the non-compliance of our Group, please refer to the section headed “Business — Regulatory Non-compliance” of this prospectus. If the relevant authorities take action against us, the respective directors of our subsidiaries may be subject to imprisonment and we may be subject to substantial penalties or incur other liabilities and if our Controlling Shareholders fail to indemnify us fully, our reputation, cash flow and results of operations may be adversely affected.

### **RISKS RELATING TO OUR OPERATIONS IN THE PRC**

#### **We are subject to the political, economic and social developments as well as laws, rules and regulations and licensing requirements in the PRC**

The production process and most of the business operations of our Group are conducted in the PRC. As a result, our business, financial condition and results of operations are subject to, to a significant extent, the political, economic, social and regulatory environment in the PRC.

The economy of the PRC differs from the economies of most developed countries in many respects, including, among others, the degree of government involvement, the level of development, the growth rate, the control of foreign exchange and the resource allocation. Given that the economy of the PRC has been undergoing a transition from a planned economy to a market-oriented economy, the PRC Government has adopted various measures emphasising the utilisation of market forces for economic reforms, the reduction of state ownership of productive assets, and the establishment of sound corporate governance in business enterprises. However, the PRC Government continues to play a significant role in regulating industry development by imposing industrial policies as well as exercise significant control over the country’s economic growth through allocating resources, controlling payment of foreign currency denominated liabilities, devising and setting monetary policies and providing preferential treatment to particular industries or enterprises. As a result, our performance has been and will continue to be affected by the economy of the PRC.

## RISK FACTORS

Furthermore, as the economy of the PRC has become increasingly linked with the global economy, the PRC is affected in various respects by the downturns or recessions of the major economies around the world. Any adverse change in the economic conditions in the PRC could have an adverse impact on the overall economic growth of the PRC, which will in turn affect the market demand for our products and thus our business.

Any unfavourable political, economic or social development in the PRC, or an unfavourable change in the laws, regulations, rules and licensing requirements of the PRC, may materially and adversely affect our business, financial condition and results of operations. Our Group is unable to accurately predict the precise nature of all the risks and uncertainties that we face as the current economic, political, social and regulatory conditions and many of the associated risks are beyond our control.

### **We are subject to stringent environmental and workplace safety laws and regulations and we may incur substantial costs in complying with such laws and regulations**

During the Track Record Period, we performed the dyeing process for our sewing threads at our Guangzhou Production Facilities. Although our dyeing facilities ceased operation in May 2016, the overall operation of our Guangzhou Production Facilities is subject to various national and local PRC environmental laws and regulations, which impose standards on the emission and treatment of pollutants created during our production process. We may be required to obtain environmental protection assessment approval and acceptance from the relevant PRC Government authorities for the operation of our Guangzhou Production Facilities from time to time.

As the PRC is increasingly aware of environmental issues, environmental laws and regulations may become more stringent over time. As a result, to ensure our compliance with the relevant environmental laws and regulations, we may need to incur more costs and devote more resources in this aspect. Further, future changes in the scope, application and interpretation of these laws, regulations and approvals may limit or restrict the production capacity or increase the costs in connection with the installation of additional pollution control or safety improvement equipment or other related expenses substantially, which will in turn adversely affect our business and results of operations. Should we fail to comply with environmental laws and regulations in the future, we may be subject to fines, penalties, clean-up costs or liabilities arising out of third-party civil or criminal claims.

### **The payment of dividends by our operating subsidiaries in the PRC is subject to restrictions under the PRC law**

We operate a substantial part of the core business mainly through our operating subsidiaries in the PRC. The PRC laws require that dividends be paid only out of after-tax profit calculated based on the PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions. The PRC law requires the PRC companies, including the foreign-invested enterprises, to set aside 10% of their after-tax profit as statutory reserves until the accumulated statutory reserves account for 50% of the registered capital of the PRC companies. As such, these statutory reserves are not available for distribution as cash dividends. Since the availability of funds to fund our operations and to service our indebtedness depends upon dividends received from our PRC subsidiaries, any restrictions on the availability and usage of our major source of funding may impact our ability to fund our operations and service our indebtedness.

## RISK FACTORS

### **Our Group is exposed to a significant risk from exchange rate fluctuations**

We are exposed to foreign currency risk when we enter into transactions which are not denominated in our functional currency. Such exposure mainly relates to the distribution and sales of our products and purchases of raw materials in the PRC, and thus, the translation of foreign operations exposes our Group to foreign currency translation risk. Approximately, 58.5%, 53.3% and 49.8% of our sales were denominated in Renminbi whilst approximately 100.0%, 97.9% and 95.6% of inventory costs were denominated in Renminbi during the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

The exchange rates that we adopt for our combined statements of profit or loss are average exchange rates for the relevant periods. During the year of 2016, the foreign exchange rate of Renminbi had depreciated against Hong Kong dollars. Our Group benefited from such Renminbi depreciation and thus was better off in the amount of approximately HK\$0.4 million (HK\$27.0 million minus HK\$26.6 million) for gross profit for the year ended 31 December 2016 when translating our Group's functional currencies into the presentation currency (i.e. Hong Kong dollars). For details of our foreign exchange risk, please refer to the section headed "Financial Information — Quantitative and Qualitative Information about Market Risks — Foreign exchange risk". The average exchange rate of HK\$/RMB may further fluctuate, and our results of operations (including those recognised as other comprehensive income), financial performance and financial position may be materially and adversely affected.

Our Group currently does not have a foreign currency hedging policy. With our business strategies and plans, we may consider hedging foreign currency exposure should the need arise. We cannot assure you that our adoption of foreign currency hedging policy will be successful. Future to manage our foreign currency hedging policy may have a material and adverse impact on our business, financial condition and results of operations.

During the Track Record Period, our Group entered into a foreign exchange rate forward contract to manage our foreign currency risk, which had a two-year term with monthly settlements from 30 June 2014 to 27 June 2016 and was not qualified as a hedging instrument in hedge relationships as defined by HKAS39. For the two years ended 31 December 2016, we had recorded a fair value loss from the derivative financial instrument of approximately HK\$1.2 million and a fair value gain from the derivative financial instrument of approximately HK\$0.2 million, respectively. We ceased entering into foreign exchange rate forward contract since 27 June 2016. We may enter into any suitable forward foreign exchange contract according to our expectations on the trend of the value of Renminbi against U.S. dollar. There is no assurance that change in fair value on such foreign exchange contract that we may enter into can effectively mitigate the fluctuation of Renminbi against U.S. dollar. Any losses arising from the foreign exchange rate forward contract could adversely affect our results of operations and financial positions.

## RISK FACTORS

### **The PRC regulations may limit our ability to finance our PRC subsidiaries effectively with the net proceeds from the Share Offer, which may adversely affect the value of your investment**

Our Group plans to finance our equity-controlled PRC subsidiaries with the net proceeds from the Share Offer through overseas shareholders' loans or additional capital contributions, which require registration with, or approvals from, the PRC government authorities. Any shareholders' loans made to our PRC subsidiaries must be registered with the local branch of the SAFE as a procedural matter, and such loans cannot exceed the difference between the total amount of investment which our PRC subsidiaries are approved to make under the relevant PRC laws and their respective registered capital. In addition, the amounts of the capital contributions are subject to the approval of or filing with MOFCOM or its local counterpart.

We cannot assure you that we will be able to complete the necessary government registrations or obtain the requisite government approvals on a timely basis, or at all, with respect to making future borrowings or capital contributions to our PRC subsidiaries with the net proceeds from the Share Offer. Should we fail to complete such registrations or obtain such approvals, our ability to contribute additional capital to fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity as well as our ability to fund and expand our business.

### **Companies having business in the PRC may have a chance to be classified as a “resident enterprise” for PRC enterprise income tax purposes and such classification could result in unfavourable tax consequences to us and our non-PRC Shareholders**

Pursuant to the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) (the “EIT Law”), which was promulgated by SAT on 16 March 2007, became effective from 1 January 2008 and amended on 24 February 2017, enterprises established under the laws of jurisdictions other than the PRC may nevertheless be regarded as PRC tax resident enterprises for tax purposes if these enterprises have their “de facto management body” within the PRC. Under the implementation rules for the EIT Law, the term “de facto management body” is defined as a body which substantially manages, or has control over the business, personnel, finance and assets, etc. of an enterprise. Since a majority of the members of our management team continue to be located in the PRC after the effective date of the EIT law and as we expect them to continue to be located in the PRC in the foreseeable future, we may be classified as a PRC resident enterprise by the PRC tax authorities and be subject to the EIT at the rate of 25% on our worldwide income accordingly. Should we be treated by the PRC tax authorities as a PRC tax resident enterprise under the PRC tax regime, our business, financial condition and results of operations may be materially and adversely affected.

### **Dividends from our PRC subsidiaries paid to our Hong Kong subsidiaries might not qualify for the reduced PRC withholding tax rate under the special arrangement between Hong Kong and the PRC**

Under the EIT law, if the foreign shareholder is not deemed a PRC tax resident enterprise under the EIT law, dividend payments in connection with earnings since 1 January 2008 from PRC subsidiaries to their foreign shareholders are subject to a withholding tax at the rate of 10%, unless the jurisdiction of such foreign shareholders has a tax treaty or similar arrangement with the PRC and the foreign shareholder obtains an approval from competent local tax authorities for application of such tax treaty or similar arrangement. Pursuant to a special arrangement between Hong Kong and the PRC, the withholding tax rate is lowered to 5% if a Hong Kong resident enterprise is the beneficial owner of more

## RISK FACTORS

than 25% of a PRC company distributing the dividends. In accordance with the Announcement on the Administrative Measures for Non-resident Taxpayers to Enjoy the Treatment Under Tax Treaties (關於發佈《非居民納稅人享受稅收協定待遇管理辦法》的公告), or the 2015 Administration Measures, which was promulgated by SAT on 27 August 2015 and became effective from 1 November 2015, prior approval from or filings with SAT is no longer required before a non-resident taxpayer can enjoy the tax preferential treatment under the relevant treaties. A non-resident taxpayer may enjoy the tax preferential treatment at the time of tax return filings or withholding and declaration through a withholding agent if it is eligible for the tax preferential treatment under the relevant provisions of a tax treaty, subject to the follow-up administration by the relevant tax authority. To enjoy the tax preferential treatment, the non-tax resident shall file documents as required by the 2015 Administration Measures with the relevant tax authority when filing tax returns or withholding and declaration through a withholding agent. Such documents include the tax resident identity issued by the tax authority of the counter party to the treaty. During the follow-up administration, the PRC tax authorities shall verify if the non-resident taxpayer is eligible for the tax preferential treatment, ask for supplemental documents from the non-tax resident or, if the non-resident taxpayer is deemed not eligible for the tax preferential treatment, require the non-resident taxpayer to pay up the non-payment or underpayment of the tax within the specified timeframe. Moreover, according to the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知) issued by SAT on 20 February 2009, if the main purpose of an offshore arrangement is to obtain preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. There is no assurance that the PRC tax authorities will recognise and accept the 5% withholding tax rate on dividends paid by our PRC subsidiaries and received by our Hong Kong subsidiaries.

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

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

No public market for our Shares existed prior to the Share Offer. Following completion of the Share Offer, the Stock Exchange will be the only market on which our Shares are publicly traded. We cannot assure you that an active trading market for our Shares will develop or be sustained after the Share Offer. Furthermore, we cannot guarantee that our Shares will trade in the public market subsequent to the Share Offer at or above the Offer Price. The Offer Price is expected to be fixed by agreement among the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company, and may not be indicative of the market price of our Shares following the completion of the Share Offer. If an active trading market for our Shares does not develop or is not sustained after the Share Offer, the market price and liquidity of our Shares could be materially and adversely affected.

## RISK FACTORS

### **The trading prices and volume of our Shares may be volatile, which could result in substantial losses to investors**

The trading prices of our Shares may be volatile and could fluctuate to a large extent in response to factors which are beyond our control, including but not limited to, variations in the level of liquidity of our Shares, changes in the estimates of our financial performance of securities analysts (if any), investors' perceptions of our Group, changes in laws, regulations and taxation systems which affect our operations, the general market conditions in the securities market in Hong Kong and the general investment environment. In particular, the trading price performance of our competitors of which securities are listed on the Stock Exchange may affect the trading prices of our Shares. These broad market and industry factors may significantly affect the market prices and volatility of our Shares, regardless of our actual operating performance.

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

### **The Sole Bookrunner is entitled to terminate the Underwriting Agreements**

Prospective investors should note that the Sole Bookrunner (for itself and on behalf of the Underwriters) is entitled to terminate its obligations under the Underwriting Agreements by giving notice in writing to us upon the occurrence of any of the events set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — The Public Offer — Grounds for termination" of this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such events may include, without limitation, any acts of God, wars, riots, public disorder, civil commotion, economic sanctions, epidemics, pandemics, fire, floods, tsunamis, explosions, acts of terrorism, earthquakes, strikes or lock-outs. Should the Sole Bookrunner (for itself and on behalf of the Underwriters) exercise its rights and terminate the Underwriting Agreements, the Share Offer will not proceed and will lapse.

### **Future sale of substantial amounts of our Shares in the public market may adversely affect the prevailing market price of our Shares**

Sale of substantial amounts of our Shares in the public market after completion of the Share Offer, or the perception that such sale could occur, may adversely affect the prevailing market price of our Shares and materially impair our future ability to raise capital through offerings of our Shares. We cannot assure you that our major Shareholders would not reduce their shareholding by disposing of our Shares. Any significant disposal of our Shares by any of our major Shareholders may materially affect the prevailing market price of our Shares. In addition, these disposals may impose greater difficulty for us to issue new Shares in the future at a time and price our Group deems appropriate, thereby limiting our ability to raise further capital.

We cannot predict what effect, if any, significant future sale will have on the market price of our Shares.



## **RISK FACTORS**

### **The interests of our Controlling Shareholders may differ from those of other Shareholders**

The interests of our Controlling Shareholders may differ from the interests of other Shareholders. Should the interests of our Controlling Shareholders conflict with those of other Shareholders, or should our Controlling Shareholders cause our business to pursue strategic objectives that conflict with the interests of other Shareholders, you could be disadvantaged by the actions that our Controlling Shareholders choose to cause us to pursue. Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matters submitted to our Shareholders for approval, such as mergers, acquisitions and disposal of all of our assets, election of directors, and other significant actions. Our Controlling Shareholders have no obligation to consider the interests of our Company or the interests of other Shareholders.

### **The Offer Price of our Shares is higher than our net tangible book value per Share and your Shares may be diluted**

Should you invest in our Shares at the Offer Price, you will pay more for the Offer Shares than our net book value on a per Share basis. As a result, you will experience an immediate dilution in the net tangible asset value and our existing Shareholders will receive an increment in the pro forma adjusted combined net tangible asset value per Share of their Shares.

### **We may issue additional Shares in the future in which your Shares may be diluted**

We may be required to issue up to an additional 30,000,000 Shares at the Offer Price (representing 15% of the number of the Offer Shares under the Share Offer should the Sole Bookrunner exercise the Offer Size Adjustment Option). We may also consider issuing and offering additional Shares in the future to raise additional funds, finance acquisitions or for other purposes. In the event that we issue additional Shares in the future, the percentage ownership of our existing Shareholders and the earnings per Share may be diluted. Moreover, such new Shares may have preferred rights, options or pre-emptive rights that make them more valuable than the Shares.

### **You may face difficulties in protecting your interests under the laws of the Cayman Islands**

We are incorporated under Cayman Islands law and Cayman Islands law may provide different remedies to shareholders when compared with the laws of Hong Kong and other jurisdictions.

Our corporate affairs are governed by our Memorandum of Association, Articles of Association, the Companies Law and the common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedents on the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court on the Cayman Islands. The laws of the Cayman Islands in relation to the protection of the interests of minority shareholders differ in some respects from those established under the laws of Hong Kong and other jurisdictions. As a result, the remedies available to our Shareholders may be different from those they would otherwise have under the laws of Hong Kong or other jurisdictions. For further details of the Memorandum of Association and the related Cayman Islands laws, please refer to Appendix III to this prospectus.

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### **There are risks associated with the granting of options under the Share Option Scheme**

Our Company has conditionally adopted the Share Option Scheme and may grant share options thereunder in the future. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance and thus may result in a dilution in the percentage of ownership of the Shareholders and the net asset value per Share. As at the Latest Practicable Date, no option had been granted under the Share Option Scheme.

Under the HKFRS, the costs of the options to be granted to staff under the Share Option Scheme will be charged to statements of comprehensive income over the vesting period by reference to the fair value at the date on which the options are granted under the Share Option Scheme. As a result, our profitability and financial results may be adversely affected.

### **The industry statistics and forward-looking information contained in this prospectus may not be accurate, reliable and fair**

Statistics and other information in relation to our industry particularly contained in the section headed “Industry Overview” of this prospectus have been compiled partly from various public available publications as well as the industry report we commissioned from an independent industry consultant. We believe that the sources of such information are appropriate sources and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, we cannot assure you of the quality of such source materials. None of our Company, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters or any other persons or their respective directors, advisers or affiliates involved in the Share Offer has independently verified such information, and makes no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside Hong Kong. Such information may not be complete or latest. As the ways of collecting the information may contain faults or may not be effective, or there may exist variations and other problems between the information published and market practices, the industry information and statistics contained in this prospectus may not be accurate and should not be unduly relied upon when making decisions on your investment in our Company or otherwise.

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

This prospectus contains certain statements and information which are “forward-looking” and uses forward-looking terminology such as “anticipate”, “believe”, “estimate”, “expect”, “potential”, “may”, “could”, “ought to”, “should”, “will”, “would” or similar words or statements, particularly in the sections headed “Business”, “Financial Information” and “Industry Overview” of this prospectus. These statements and information, which relate to us and the subsidiaries comprising our Group, are based on the beliefs of our management as well as the assumptions made by and the information currently available to our management. They reflect the current views of our Company’s management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. However, these statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. Investors of the Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect.

## RISK FACTORS

The uncertainties in this regard include, but are not limited to, those identified in this section, many of which are not within our Group's control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by our Company that our plans or objectives will be achieved and investors should not place undue reliance on such forward-looking statements. Our Company does not undertake any obligations to update publicly or release any revision of any forward-looking statements, whether as a result of new information, future events or otherwise. Please refer to the section headed "Forward-looking Statements" of this prospectus for further details.

**You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or media regarding our Group or the Share Offer**

Prior to the publication of this prospectus, there may be press and media coverage regarding our Group or the Share Offer, which may include certain financial information, financial projections and other information about our Group which do not appear in this prospectus. We have not authorised the disclosure of such information in the press or the media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness or reliability of any such information. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we expressly disclaim it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to purchase our Shares, you should rely only on the financial, operational and other information included in this prospectus but note that undue reliance should not be placed on any forward-looking statements in this prospectus, which may not materialise or may change.

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

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

This prospectus, for which our Directors collectively and individually take full responsibility, includes particulars given in compliance with the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purposes of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material respects and is neither misleading nor deceptive;
- (b) there are no other matters the omission of which would render any statement herein or this prospectus as a whole misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are considered fair and reasonable.

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

### **OFFER SHARES ARE FULLY UNDERWRITTEN**

This prospectus is published solely in connection with the Share Offer, comprising the Placing and the Public Offer. Details of the structure of the Share Offer, including conditions of the Share Offer, are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus. The Listing is sponsored by the Sole Sponsor. The Share Offer is managed by the Sole Bookrunner. The Public Offer will be fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement and is subject to the agreement to the Offer Price between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters). The Placing will be fully underwritten by the Placing Underwriters under the terms of the Placing Underwriting Agreement. For further details about the Underwriters and the Underwriting Agreements, please refer to the section headed "Underwriting" in this prospectus.

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

### **OFFER PRICE**

The Offer Shares are being offered at the Offer Price, which is expected to be fixed by the Price Determination Agreement between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, which is currently scheduled to be on or before Monday, 11 December 2017 or such later date as the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company may agree but in any event not later than Monday, 11 December 2017. If, for whatever reason, the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company are unable to agree on the Offer Price by the Price Determination Date, the Share Offer will not become unconditional and will lapse. For information relating to the determination of the Offer Price, please refer to the section headed “Structure and Conditions of the Share Offer” in this prospectus.

### **SELLING RESTRICTIONS**

No action has been taken to permit any offering of the Offer Shares or the distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or the related Application Forms may not be used for the purpose of, and does not constitute, any offer or invitation nor is it taken as an invitation or solicitation of offers in any jurisdiction or under any circumstances where such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus and/or the related Application Forms and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable laws, rules and regulations of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities or as an exemption therefrom.

Each person acquiring the Offer Shares will be required to confirm, or by his or her acquisition of the Offer Shares be deemed to confirm, that he or she is aware of the restrictions on the offer of the Offer Shares described in this prospectus and/or the related Application Forms and that he or she is not acquiring, and has not been offered, any such shares in circumstance that contravenes any such restrictions.

Prospective investors for the Offer Shares should consult their financial advisers and take legal advice as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction.

### **PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES**

The procedure for application for the Public Offer Shares is set out in the section headed “How to Apply for the Public Offer Shares” in this prospectus and on the relevant Application Forms.

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

Details of the structure and conditions of the Share Offer are set out in the section headed “Structure and Conditions of the Share Offer” in this prospectus.

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

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

Application has been made to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer and the Capitalisation Issue on GEM and the Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and the exercise of any option which may be granted under the Share Option Scheme. Save as disclosed herein, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at least 25% of the total issued share capital of our Company must at all times be held by the public. A total of 200,000,000 Offer Shares, representing 25% of the enlarged issued share capital of our Company, will be in the hands of the public immediately following the completion of the Capitalisation Issue and the Share Offer (assuming the Offer Size Adjustment Option is not exercised and without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme) and upon Listing. Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the permission for the Shares to be listed on GEM pursuant to this prospectus has been refused prior to the expiration of three weeks from the date of the closing of the Share Offer or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

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

Subject to the granting of listing of, and permission to deal in, the Shares on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date, or on any other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for our Shares to be admitted into CCASS.

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

### **DEALINGS AND SETTLEMENT**

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. (Hong Kong time) on Friday, 15 December 2017.

Shares will be traded in board lots of 10,000 Shares each and are freely transferrable. The stock code of the Shares is 8377.

Our Company will not issue any temporary document of title.

### **OFFER SIZE ADJUSTMENT OPTION**

Details of the Offer Size Adjustment Option are set out in the section headed “Structure and Conditions of the Share Offer” in this prospectus.

### **HONG KONG SHARE REGISTRAR AND STAMP DUTY**

All of the Shares will be registered in our Company’s branch register of members to be maintained in Hong Kong by our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong. Only securities registered on the register of members of our Company kept in Hong Kong may be traded on GEM unless the Stock Exchange agrees otherwise.

Dealings in the Shares registered in the branch register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of our Shares will be paid to the Shareholders listed on our Company’s Hong Kong branch register of members to be maintained in Hong Kong, by ordinary post, at the Shareholders’ risk, to the registered address of each Shareholder or for joint Shareholders, to the first-named therein in accordance with the Articles.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

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

## INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

### LANGUAGE

If there is any inconsistency between the English version of this prospectus and the Chinese translation of this prospectus, the English version of this prospectus shall prevail. Names of any laws and regulations, governmental authorities, institutions, natural persons or other entities which have been translated from Chinese into English and included in this prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency between the Chinese names of the Chinese entities mentioned in the prospectus and their English translations, the Chinese names shall prevail.

### CURRENCY CONVERSION

Unless otherwise specified, translations of US\$ and RMB into HK\$ in this prospectus are based on the exchange rates set out below:

US\$1.0 = HK\$7.80

RMB1.0 = HK\$1.14

Such conversions shall not be construed as representations that any amount of such currencies can be or could have been converted at the relevant dates and vice versa at such rates or any other exchange rates or at all.

### ROUNDING

Any discrepancies in any table between totals and sums of individual amounts listed in any table are due to rounding.



## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

### DIRECTORS

Name	Address	Nationality
<b>Executive Directors</b>		
Mr. Wong Kwok Wai, Albert (黃國偉)	Flat C, 36th Floor Tower 1, The Harbourside 1 Austin Road West Tsim Sha Tsui Kowloon Hong Kong	Chinese
Mr. Lee Wing Hong (李永康)	Flat C, 13/F Cannon Garden 68 King's Road North Point Hong Kong	Chinese
<b>Non-executive Director</b>		
Mr. Ng Chan Lam (伍燦林)	Flat D, 12th Floor Block 4, Bamboo Mansion Site 12, Whampoa Garden 3 Tak Hong Street Hung Hom Kowloon Hong Kong	British
<b>Independent non-executive Directors</b>		
Mr. To King Yan, Adam (杜景仁)	Flat D, 15th Floor Estoril Court 55 Garden Road Mid Levels Hong Kong	Chinese
Dr. Yeung Ngai Man, John (楊毅敏)	15th Floor, Block D Woodland Heights 2 Wong Nai Chung Gap Road Hong Kong	British
Mr. Sung Alfred Lee Ming (宋理明)	43 1st Street, Section G Fairview Park Yuen Long New Territories Hong Kong	Australian

For further details regarding our Directors, please refer to the section headed “Directors and Senior Management — Members of our Board” of this prospectus.

## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

### PARTIES INVOLVED IN THE SHARE OFFER

#### Sole Sponsor

#### **Huabang Corporate Finance Limited**

Room 2006, 20/F

Enterprise Square Two

3 Sheung Yuet Road

Kowloon Bay, Kowloon

Hong Kong

*(a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO)*

#### Sole Bookrunner

#### **Huabang Securities Limited**

Room 1708–13, 17/F

Nan Fung Tower

88 Connaught Road Central and

173 Des Voeux Road Central

Hong Kong

*(a licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO)*

#### Joint Lead Managers

#### **Huabang Securities Limited**

Room 1708–13, 17/F

Nan Fung Tower

88 Connaught Road Central/

173 Des Voeux Road Central

Hong Kong

*(a licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO)*

#### **Quasar Securities Co., Limited**

Unit A, 12/F, Harbour commercial Building

122–124 Connaught Road Central

Hong Kong

*(a licensed corporation to carry out type 1 (dealing in securities) regulated activity under the SFO)*

#### **Long Asia Securities Limited**

Unit A, 23/F, The Wellington,

198 Wellington Street,

Sheung Wan, Hong Kong

*(a licensed corporation to carry out type 1 (dealing in securities) regulated activity under the SFO)*

## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

### **Yue Xiu Securities Company Limited**

13/F, Yuexiu Building

160 Lockhart Road

Wanchai, Hong Kong

*(a licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO)*

### **Legal advisers to our Company**

*as to Hong Kong law*

#### **Benny Pang & Co.**

27th Floor, 100QRC

100 Queen's Road Central

Central

Hong Kong

*as to PRC law*

#### **King & Wood Mallesons**

25th Floor

Guangzhou CTF Finance Center

No.6 Zhujiang East Road

Zhujiang New Town, Tianhe District

Guangzhou

Guangdong

PRC

*as to Cayman Islands law*

#### **Appleby**

2206-19 Jardine House

1 Connaught Place

Central

Hong Kong

*as to International Sanctions law*

#### **Hogan Lovells**

11th Floor, One Pacific Place

88 Queensway

Hong Kong

<b>DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER</b>
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**Legal advisers to the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Underwriters**

*as to Hong Kong law*  
**Wan Yeung Hau & Co.**  
Room 2501  
China Insurance Group Building  
141 Des Voeux Road Central  
Central  
Hong Kong

*as to PRC law*  
**JunHe LLP**  
Suite 1301, 13/F  
E Building, G.T. Land Plaza  
13 Zhujiang East Road  
Zhujiang New Town  
Tianhe District  
Guangzhou 510623  
PRC

**Auditors and reporting accountants**

**Ernst & Young**  
*Certified Public Accountants*  
22nd Floor, CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

**Compliance adviser**

**Huabang Corporate Finance Limited**  
Room 2006, 20/F  
Enterprise Square Two  
3 Sheung Yuet Road  
Kowloon Bay, Kowloon  
Hong Kong

**Receiving bank**

**Bank of Communications Co., Ltd. Hong Kong Branch**  
20 Pedder Street, Central  
Hong Kong

## CORPORATE INFORMATION

- Registered office** : Clifton House  
75 Fort Street  
PO Box 1350  
Grand Cayman KY1-1108  
Cayman Islands
- Principal place of business in the PRC** : No. 386 Zeng Nan Road  
Zeng Jiao Cun  
Fang Cun  
Liwán District  
Guangzhou  
China
- Headquarters, head office and principal place of business in Hong Kong registered under Part 16 of the Companies Ordinance** : Room 1006–7, 10/F., Kowloon Centre  
No. 33 Ashley Road  
Tsim Sha Tsui  
Kowloon  
Hong Kong
- Company secretary** : Mr. Chan Yiu Tung, Enoch *HKICPA, ACCA*  
Room 13B, Block 2  
Greenpark Villa  
Kat Cheung Crescent  
Sheung Shui  
New Territories  
Hong Kong
- Compliance officer** : Mr. Chan Yiu Tung, Enoch *HKICPA, ACCA*  
Room 13B, Block 2  
Greenpark Villa  
Kat Cheung Crescent  
Sheung Shui  
New Territories  
Hong Kong
- Authorised representatives (for the purpose of the GEM Listing Rules)** : Mr. Wong Kwok Wai, Albert  
Flat C, 36th Floor  
Tower 1, The Harbourside  
1 Austin Road West  
Tsim Sha Tsui  
Kowloon  
Hong Kong
- Mr. Chan Yiu Tung, Enoch  
Room 13B, Block 2  
Greenpark Villa  
Kat Cheung Crescent  
Sheung Shui  
New Territories  
Hong Kong

## CORPORATE INFORMATION

- Members of the audit committee** : Mr. Sung Alfred Lee Ming (*Chairman*)  
Mr. To King Yan, Adam  
Dr. Yeung Ngai Man, John
- Members of the remuneration committee** : Dr. Yeung Ngai Man, John (*Chairman*)  
Mr. Sung Alfred Lee Ming  
Mr. To King Yan, Adam
- Members of the nomination committee** : Mr. Wong Kwok Wai, Albert (*Chairman*)  
Mr. To King Yan, Adam  
Mr. Sung Alfred Lee Ming
- Principal share registrar and transfer office** : Estera Trust (Cayman) Limited  
Clifton House  
75 Fort Street, P.O. Box 1350  
Grand Cayman KY1-1108  
Cayman Islands
- Hong Kong branch share registrar and transfer office** : Tricor Investor Services Limited  
Level 22  
Hopewell Centre  
183 Queen's Road East  
Hong Kong
- Principal banker** : The Hongkong and Shanghai Banking Corporation Limited  
No. 1 Queen's Road Central  
Central  
Hong Kong
- Company's website** : **[www.shenyouholdings.com](http://www.shenyouholdings.com)**  
*(A copy of this prospectus is available on the Company's website. Except for the information contained in this prospectus, none of the other information contained in the Company's website forms part of this prospectus)*

## INDUSTRY OVERVIEW

*The information presented in this section is, including certain facts, statistics and data, derived from the market research report (“CIC Report”) prepared by China Insights Consultancy Limited, an independent market research and consulting company which was commissioned by us and from various official government publications and other publicly available publications, unless otherwise indicated. We believe that these sources are appropriate for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by our Company, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Share Offer and no representation is given as to its accuracy, completeness or fairness. The information and statistics may not be consistent with other information and statistics compiled within or outside of the PRC. As a result, excessive reliance on the information contained in this section shall be avoided.*

### SOURCE OF INFORMATION

We commissioned CIC, a market research and consulting company and an Independent Third Party, to conduct an analysis of, and to report on the sewing thread market in the PRC for the period from 2011 to 2021. The CIC Report has been prepared by CIC independent of our influence. The fee payable to CIC for preparing the CIC Report is RMB672,000, which we consider to be reflecting market rates for similar services. CIC is a consulting firm established in Hong Kong. It provides professional industry consulting across multiple industries. CIC’s services include, among other things, industry consulting service, commercial due diligence and strategic consulting.

Our Directors are of the view that the information set forth in this section is reliable and not misleading as the information was extracted from the CIC Report and CIC is an independent professional market research company with extensive experience in their profession. The information and data collected by CIC have been analysed, assessed and validated using CIC’s in-house analysis models and techniques. The primary research was conducted via interviews with key industry experts and leading industry participants. The secondary research involved analysis of the market data obtained from several publicly available data sources, such as the National Bureau of Statistics of China (“NBSC”) and industry associations. The methodology used by CIC is based on the information gathered from multiple levels and allows such information to be cross-referenced for reliability and accuracy. On such basis, we consider the data and statistics set forth in this section to be reliable.

The CIC Report contains a variety of market projections, which were produced based on the following key assumptions: (i) the PRC’s economy and industrial development are likely to maintain a steady growth trend into the next decade; (ii) the related industry key drivers are likely to drive the growth of the PRC’s sewing thread market in the forecast period, such as the steadily growing downstream garment demands, the PRC’s resource advantages in the textile industry, supportive policies promulgated by the PRC Government and a favourable export environment; and (iii) there is no extreme force majeure or industry regulation in which the market may be affected dramatically or fundamentally. The reliability of the CIC Report may be affected by the accuracy of the foregoing assumptions and factors. CIC has given us consent to quote from the CIC Report and to use information contained in the CIC Report in this prospectus.

## INDUSTRY OVERVIEW

The CIC Report mainly focuses on the PRC market, being the main jurisdiction in which our businesses are located. Our Directors confirm that after taking reasonable care, there is no material adverse change in the market information since the date of the relevant data contained in the CIC Report which may qualify, contradict or have an impact on the information in this section.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the CIC Report.

### OVERVIEW OF THE SEWING THREADS INDUSTRY IN THE PRC

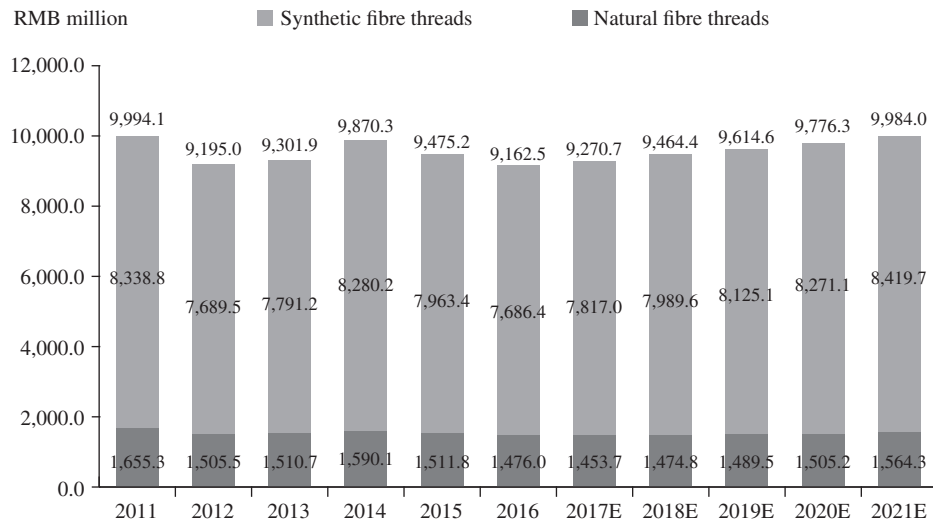
#### Introduction

Sewing threads are one of the most important and fundamental parts of all garment auxiliaries. Garment auxiliary materials include functional fabrics, fasten materials such as zippers and buttons, sewing threads, paddings and other decorative materials such as laces and labels, together with clothing fabrics that are used for making garments. In this report, sewing threads are defined as materials that are used to sew garments together, which exclude embroidery threads and threads for industrial applications such as furniture and shoes.

Two major types of threads, which are well-known for their raw materials are natural fibre threads and synthetic fibre threads. Natural fibre threads are made from cotton, wool or silk, among which cotton thread is the most commonly used and more suitable for sewing delicate fabrics such as lingerie. Synthetic fibre threads can be made from raw materials including polyester, nylon or rayon, among which polyester thread is a true all-purpose thread applicable in most sewing projects. With the limitations in natural fibre threads, thread users have turned to synthetic fibre threads for their desirable properties of exceptionally high tenacity, high resistance to abrasion and good resistance to chemicals.

Synthetic fibre threads dominated the sewing threads industry in the PRC in 2016, which accounted for 83.9% of the production value of sewing threads in the PRC in 2016, with a gradual increase from 83.4% in 2011. It is expected that production value of both natural fibre threads and synthetic fibre threads will increase in the next five years.

**Production value of sewing threads by raw material, PRC, 2011–2021E**



Source: CIC

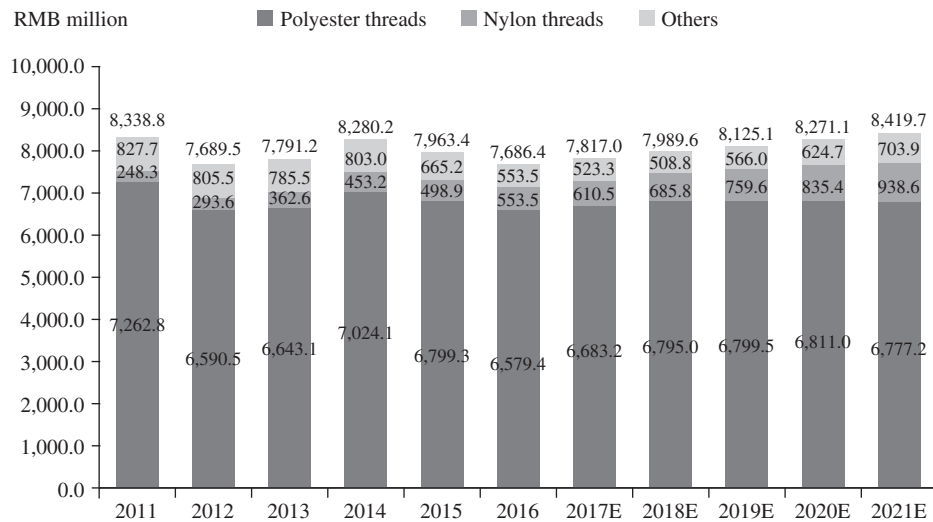


## INDUSTRY OVERVIEW

Among all synthetic sewing thread products, polyester thread is the most significant sub-segment of the sewing threads industry in the PRC and accounted for more than 85% of the total production value of synthetic sewing threads in the PRC in 2016.

Nylon thread remained as a small sub-segment of the sewing threads industry. Its portion in the synthetic sewing thread market in the PRC in terms of production value increased from 3.0% in 2011 to 7.2% in 2016. There was an increase of the production value of nylon threads from RMB248.3 million in 2011 to RMB553.5 million in 2016 with a CAGR of 17.4%. It is expected that the production of nylon threads will continue to increase in the future because of its increasing application in downstream.

**Production value of sewing threads by raw material, PRC, 2011–2021E**

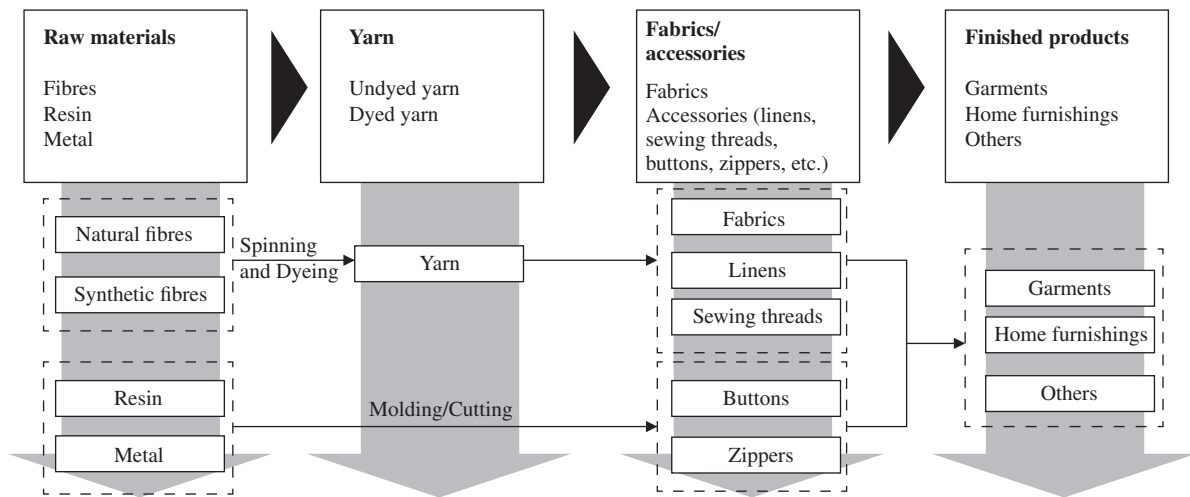


Source: CIC

## INDUSTRY OVERVIEW

### Textile and garment manufacturing value chain

The upstream of the industry chain is composed of raw materials such as natural fibres and synthetic fibres. The midstream of the industry involves yarn and fabrics/accessories manufacturing, including linens, sewing threads, buttons and zippers. Yarn is produced by twisting together short fibres or fine continuous filaments. After spinning, dyed and undyed yarns can be used for weaving or knitting. A sewing thread is a tightly twisted strand of two or more plies of yarn. Fabrics are then used for manufacturing garments or home furnishings. The downstream is mainly composed of finished products such as garments and home furnishings. It is a general industry practice for sewing threads manufacturers to make prepayments in order to secure a supply of a specific type of raw materials for finished product manufacturers. The rigid demands and increasingly diversified development of garments lead to the sustainable and diversified needs of textile products.



Source: CIC

### Textile and garment industries in the PRC

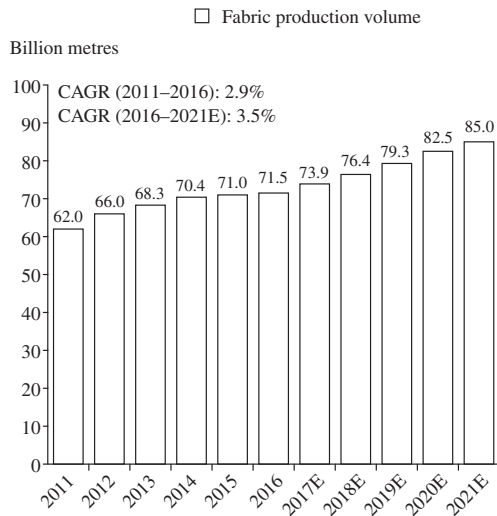
The sewing threads industry in the PRC forms part of the overall textile industry and depends heavily on the downstream demands for finished products such as clothing and home furnishings, and is therefore significantly driven by the growth of the garment industry, which is a major downstream sector of the textile industry.

The textile industry in the PRC is analysed with a relatively wide coverage comprising yarn spinning and fabric processing industry including both household and non-household products and the garment industry covers woven garment, knitted garment and other garment manufacturing. The following charts set forth the historical and forecasted textile fabric and garment production volume of enterprises above designated size in the textile industry of the PRC.

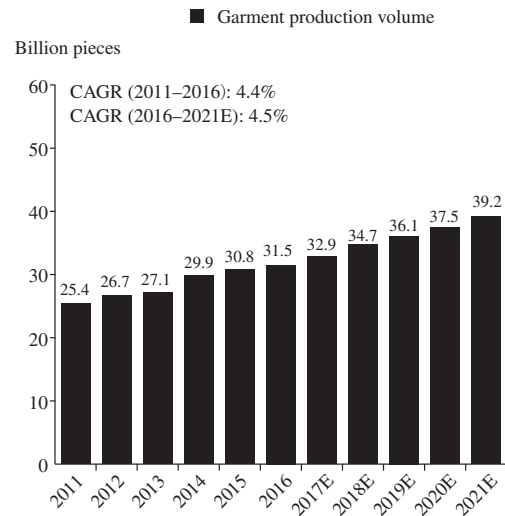
The production volume of textile fabric and garment in the PRC totalled 71.5 billion metres and 31.5 billion pieces in 2016. The textile fabric production volume experienced a sustainable growth in the past six years, increasing from 62.0 billion metres to 71.5 billion metres with a CAGR of 2.9%. With the global economy recovering and the domestic demand improving, the production of textile fabric and garment in the PRC is projected to reach 85.0 billion metres and 39.2 billion pieces in 2021, with CAGRs of 3.5% and 4.5%, respectively between 2016 and 2021.

## INDUSTRY OVERVIEW

**Textile fabric production volume of enterprises above designated size in the textile industry, PRC, 2011–2021E**



**Garment production volume of enterprises above designated size in the textile industry, PRC, 2011–2021E**



*Note:* Revenue above refers to revenue from principal business of enterprises above designated size in the textile industry of the PRC. From 2011 until now, it refers to annual revenue from principal business over RMB20 million.

*Sources:* NBSC and CIC

### Sewing threads industry in the PRC

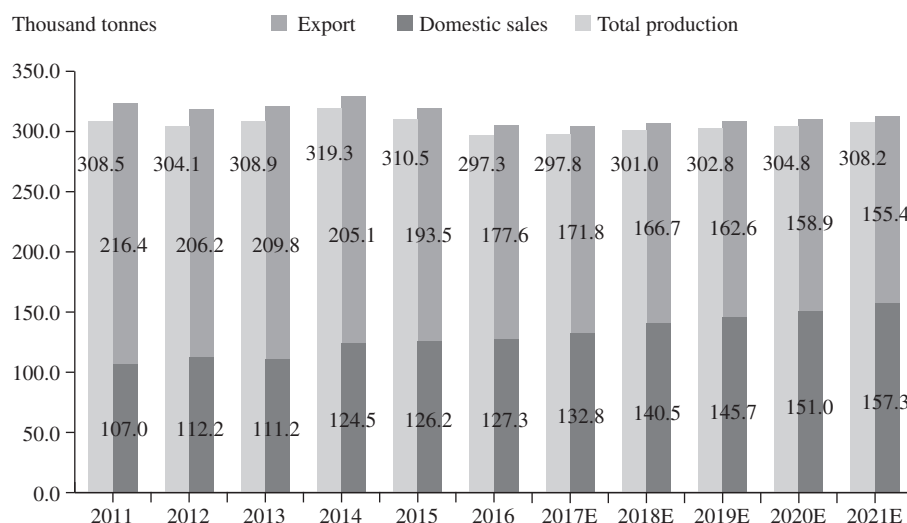
The total production volume of sewing threads in the PRC peaked in 2014 and then decreased in 2015 and 2016, mainly because of the weakened export performance. Sustaining the consumption of garment is expected to drive the total production volume of sewing threads in the PRC to recover with an increase from 297.3 thousand tonnes in 2016 to 308.2 thousand tonnes in 2021 with a CAGR of 0.7%.

The domestic sales volume of sewing threads in the PRC has been greatly affected by the production volume of garment from 107.0 thousand tonnes in 2011 to 127.3 thousand tonnes in 2016 with a CAGR of 3.5%. With the development of the garment industry, it is expected that the domestic sales volume of sewing threads will grow continuously, with an increase in the domestic selling price reaching 157.3 thousand tonnes in 2021.

The export volume of sewing threads in the PRC has slightly declined from 216.4 thousand tonnes in 2011 to 177.6 thousand tonnes in 2016. Such decline was mainly due to the decrease in the export volume of synthetic fibres. It is expected that the export volume of sewing threads in the PRC will reach 155.4 thousand tonnes in 2021.

## INDUSTRY OVERVIEW

**Total production, domestic sales and export volume of sewing threads,  
PRC, 2011–2021E**



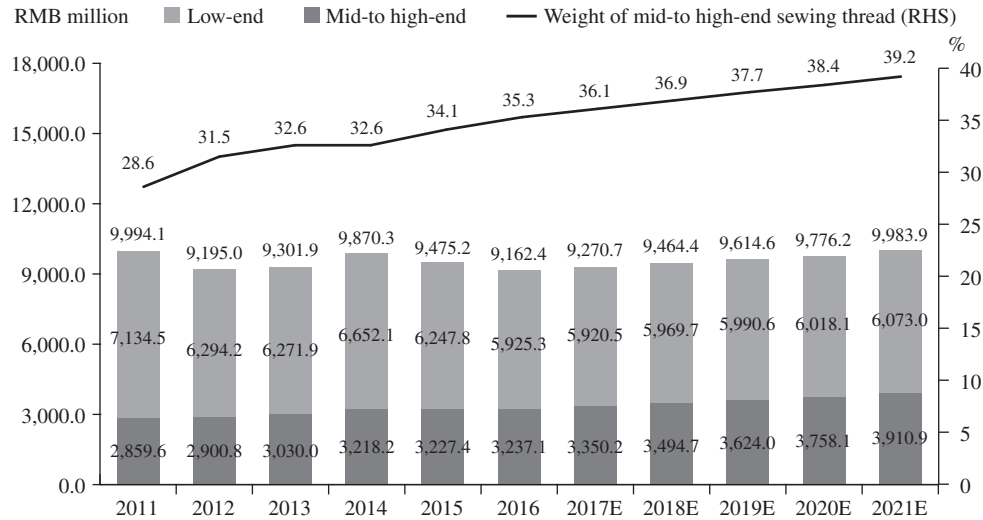
Source: CIC

The total production value of sewing threads in the PRC peaked in 2011, and subsequently fluctuated from 2012 to 2016. This trend was reflected in the sewing thread price pattern for the same period. There was also an increase in the sewing thread production value in 2014 attributed by the rising domestic consumption as well as stable export. The production value then continued to decrease to RMB9,162.4 million in 2016, because of a decline in export as the economy in the PRC shifted from export driven to consumption led. Driven by the increase in product prices and downstream demand, the production value of sewing threads is expected to recover from the decline and will further increase to RMB9,983.9 million in 2021 with a CAGR of 1.7% between 2016 and 2021. Future growth in the production value of sewing threads will likely be driven by sustaining garment consumption, as the market is moving from favouring low price products to favouring quality and differentiated products.

The mid- to high-end sewing threads in the PRC experienced a favourable growth for the period from 2011 to 2016, with a production value from RMB2,859.6 million in 2011 to RMB3,237.1 million in 2016, representing a CAGR of 2.5%. The percentage of mid- to high-end sewing threads in production value increased from 28.6% in 2011 to 35.3% in 2016 of the total sewing threads in the PRC. Further, it is expected that the production value of mid- to high-end sewing threads will reach RMB3,910.9 million in 2021, representing a CAGR of 3.9% since 2016. The mid-to high-end sewing threads will account for 39.2% of the total production value of sewing threads in the PRC in 2021.

## INDUSTRY OVERVIEW

**Total production value of sewing threads in terms of price range, PRC, 2011–2021E**

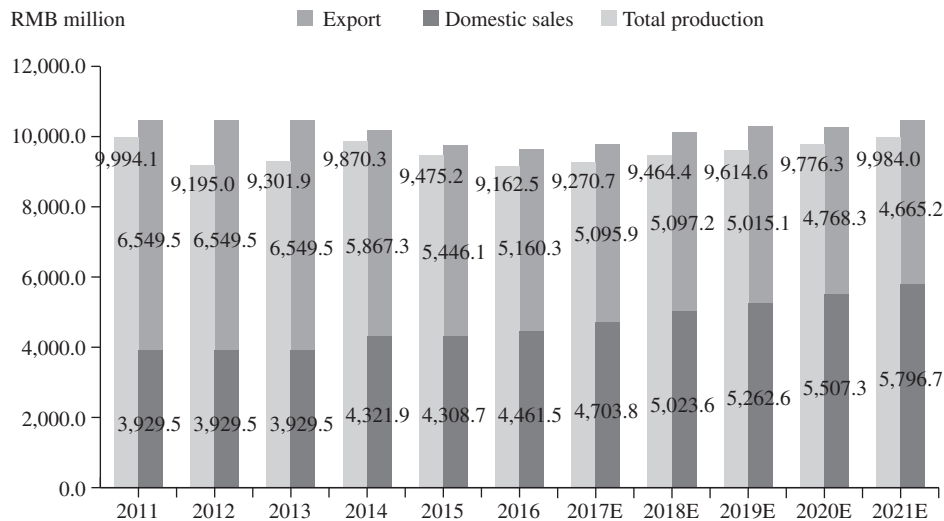


Source: CIC

The domestic sales revenue of sewing threads in the PRC experienced a decline and recovered between 2011 and 2016, with an increase from RMB3,929.5 million in 2011 to RMB4,461.5 million in 2016, representing a CAGR of 2.6%. With the further development in the garment manufacturing industry, the domestic sales revenue of sewing threads is expected to reach RMB5,796.7 million in 2021.

The export value of sewing threads decreased from RMB6,549.5 million in 2011 to RMB5,160.3 million in 2016 with a CAGR of -4.7% caused by the decline of garment markets in major export destinations such as Asia and Africa. The export value of sewing threads is expected to reach RMB4,665.2 million in 2021.

**Total production, domestic sales and export value of sewing threads, PRC, 2011–2021E**

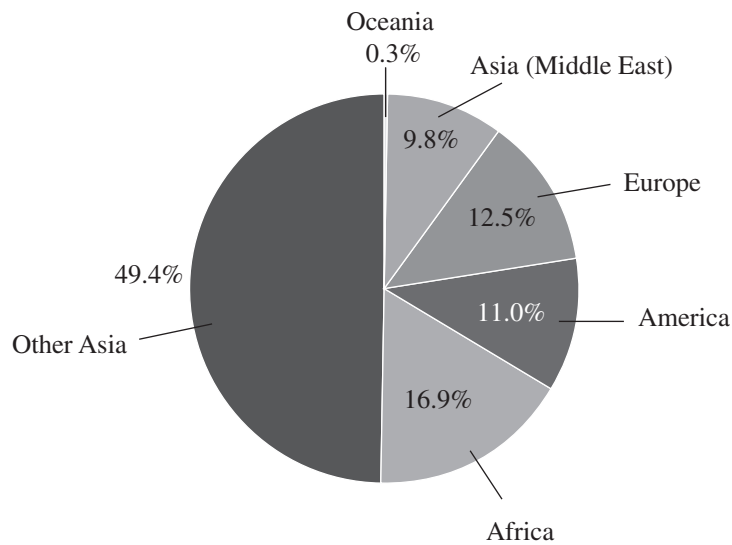


Source: CIC

## INDUSTRY OVERVIEW

Asia remains the largest export destination of PRC's sewing thread in terms of the export value in 2016 as production of textile products continues migrating from developed countries to less developed regions such as the PRC and Southeastern Asian countries for their low production costs. Among Asia, the Middle East represented approximately one sixth of the market share. UAE has contributed for one sixth of the export of sewing threads from the PRC to the Middle East due to its implementation of free trade policies. In addition, per capita consumption of textile products of the Middle East is among the world's highest. Following Asia is Africa, which was the second largest sewing thread export destination with 16.9% market share in 2016. The textile industry is one of the pillar industries for the local economy of Africa not only because it has areas of intense cotton production but also the transportation costs from Africa to the United States or Europe are much lower. America, Europe and Oceania collectively account for less than 25% of the total export of the PRC's sewing threads.

**Breakdown of the export value of sewing threads by destination, 2016**



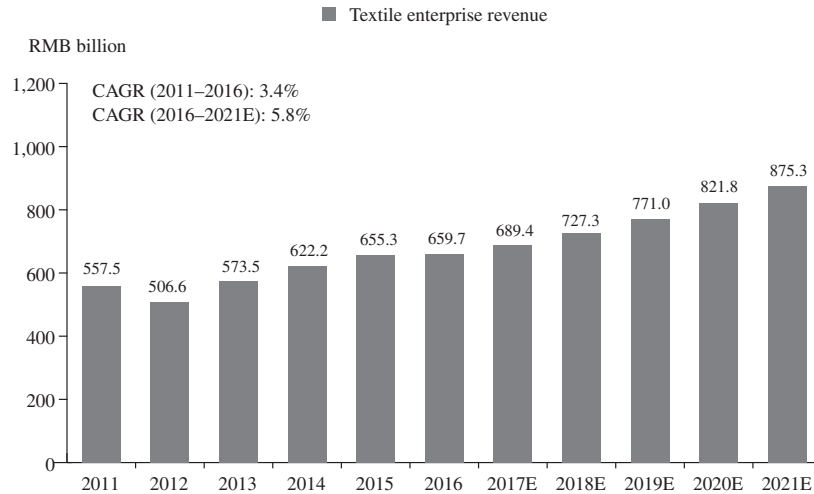
Source: CIC

## INDUSTRY OVERVIEW

### OVERVIEW OF THE SEWING THREADS INDUSTRY IN GUANGDONG

Guangdong province accounted for approximately 9.0% of the PRC's textile industry in terms of revenue of enterprises above designated size in 2016. The revenue of enterprises above designated size in Guangdong increased from RMB557.5 billion in 2011 to RMB659.7 billion in 2016, with a CAGR of 3.4%, and is expected to further reach RMB875.3 billion in 2021.

#### Revenue of enterprises above designated size in the textile industry, Guangdong, 2011–2021E

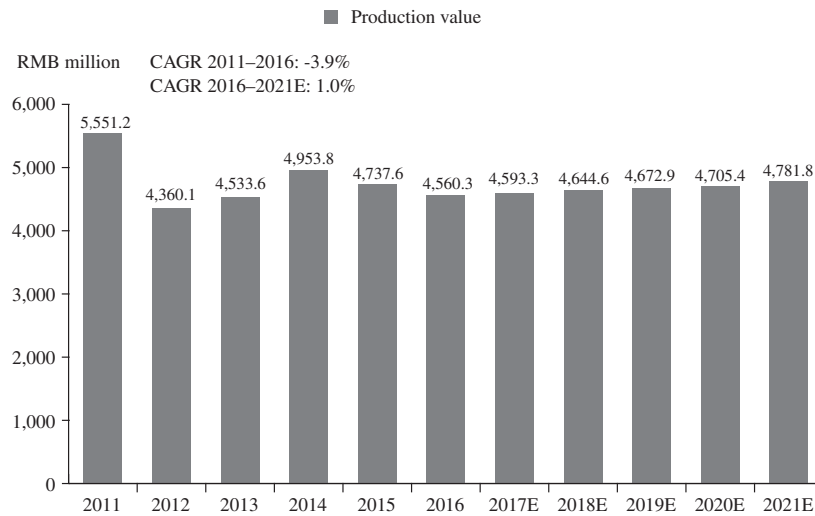


Source: CIC

In 2016, Guangdong accounted for approximately 50% of the total sewing thread production in terms of the production volume in the PRC, slightly down from around 56% in 2011. This was mainly due to the emergence of sewing thread industries in other provinces such as Fujian and Jiangxi, where labour costs were much lower. While the sewing thread production in Guangdong is primarily driven by export, sewing thread enterprises located in inland provinces mostly sell their products to local garment factories. The production value of sewing threads in Guangdong decreased from RMB5,551.2 million in 2011 to RMB4,560.3 million in 2016, which was mainly due to a decrease in the export and shutdown of quite a few small-scale production plants. The production value of sewing threads is expected to slowly recover and reach RMB4,781.8 million in 2021, representing a CAGR of 1.0% between 2016 and 2021. Factors such as the sustaining demands from the global garment market and the relatively cost-effective advantages of Guangdong are likely to further drive the future growth.

## INDUSTRY OVERVIEW

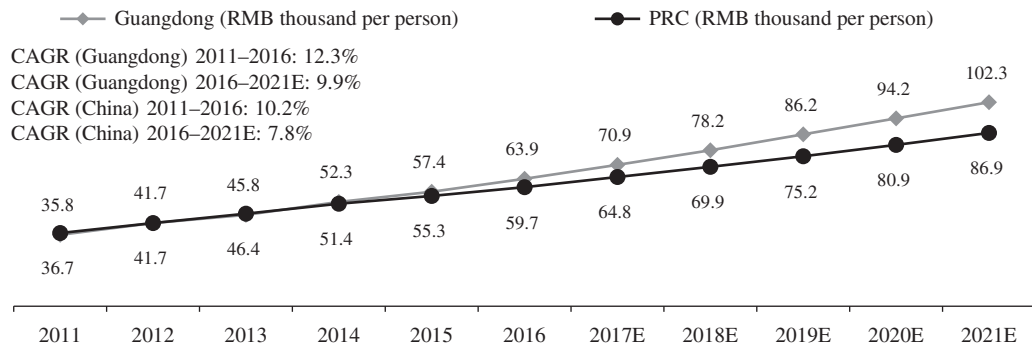
### Production value of sewing threads, Guangdong, 2011–2021E



Source: CIC

Labour is another major component of costs for sewing thread manufacturers in Guangdong since a large number of skilful workers are needed in the entire production process. The average annual wage of employed persons in the urban units of Guangdong (manufacturing sector) increased from RMB35.8 thousand per person in 2011 to RMB63.9 thousand per person in 2016, with a CAGR of 12.3%. That wage in the urban units of the PRC increased from RMB36.7 thousand per person in 2011 to RMB59.7 thousand per person in 2016, with a CAGR of 10.2%. Though the sewing threads industry has been impacted by the rising labour costs to some extent, the drop in raw material prices could help sewing thread manufacturers to relieve such impact caused by the labour in the near term. It is expected that the average annual wage of Guangdong and the PRC will increase to RMB102.3 thousand per person and RMB86.9 thousand per person in 2021 with CAGRs of 9.9% and 7.8%, respectively.

### Average annual wage of employed persons in urban units (manufacturing sector), 2011–2021E



Source: CIC



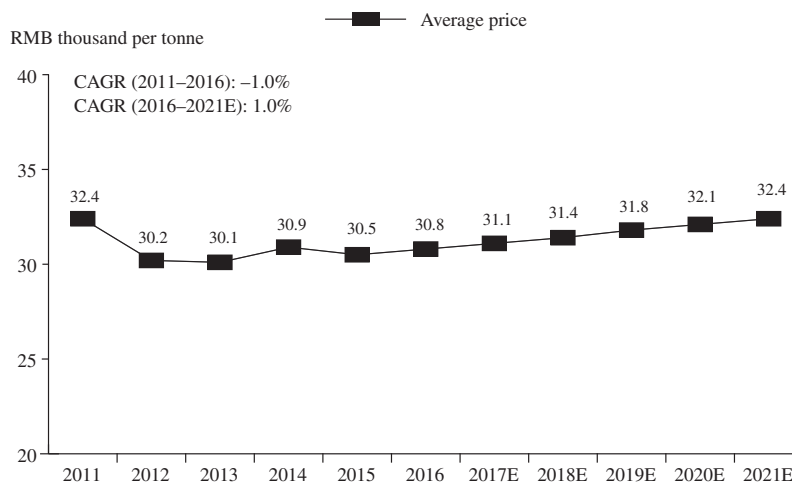
# INDUSTRY OVERVIEW

## SEWING THREAD AND RAW MATERIAL PRICING

### Sewing thread pricing

Sewing thread prices are mainly affected by the price fluctuations in raw materials, of which polyester fibre is the major type. However, it is less volatile since clients of sewing thread manufacturers tend to be less sensitive to sewing thread prices. The average price of sewing threads in the PRC has experienced an overall decreasing trend in the past several years, from RMB32.4 thousand per tonne in 2011 to RMB30.8 thousand per tonne in 2016 with some fluctuations during that period, which was largely impacted by raw material price changes. Raw material prices are highly correlated with crude oil price as the raw materials are by-products during oil refinery process. Therefore, such raw materials are usually sold by state-owned enterprises. With the expectation of the slow recovery in crude oil price, it is expected that raw material prices will increase, causing a further increase in the average price of sewing threads to RMB32.4 thousand per tonne in 2021 with a mild CAGR of 1.0% between 2016 and 2021. The following chart sets forth the historical and forecasted average price of sewing threads in the PRC:

**Average price of sewing threads, PRC, 2011–2021E**



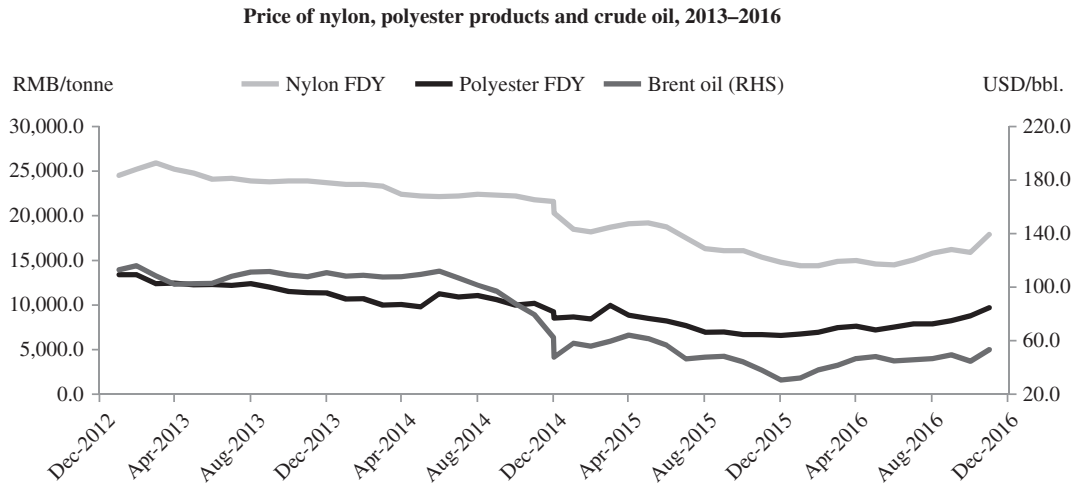
*Note:* The average price is the weighted average of export price and domestic selling price which has been calculated on the basis of export volume and domestic consumption volume.

*Sources:* NBSC, CIC

## INDUSTRY OVERVIEW

### Raw material pricing

Sewing threads are made from raw materials such as cotton, and synthetic fibres (among others, polyester and nylon). Synthetic fibres are by-products in the petrochemical process. The prices of chemical fibre products have been declining due to the drastic decrease of the oil price in 2015, which was highly correlated with crude oil price. Since the costs of raw materials have been decreasing during the past three years, sewing thread producers have been reducing product prices to meet the expectations of their customers.



Note: FDY refers to fully drawn yarn

Sources: EIA, CIC

### Drivers of the sewing threads industry in the PRC

- (i) **Stable garment needs:** The garment production in the PRC volume grew rapidly from 25,400.0 million pieces in 2011 to 31,452.0 million pieces in 2016, with a CAGR of approximately 4.4% between 2011 and 2016. In the foreseeable future, the garment production volume growth will be driven by sustaining garment consumption. Being an essential part of garment products, sewing threads are expected to experience further growth.
- (ii) **Abundant resources:** Resource advantages such as labour, mature supporting facilities, developed transportation infrastructure in the PRC also act as strong growth drivers for the production of sewing threads. Despite the elevation of the wage level, the PRC still maintains labour skills advantages over other Asian countries. The advanced supporting facilities and developed transportation infrastructure provide the sewing thread production with an integrated business environment from upstream raw material suppliers to downstream enterprises.
- (iii) **Supportive policies:** The PRC Government has launched several policies and regulations in recent years, in support of the development and innovation of the domestic textile industry as well as the production brand construction such as The 12th Five-year Plan of Textile Industry 《紡織工業「十

## INDUSTRY OVERVIEW

二五」發展規劃》 and The Development Plan of Textile Industry (2016–2020) 《紡織工業發展規劃(2016–2020)》. As an essential component of the textile value chain, the sewing thread market also benefits from these policies.

### Challenges of the sewing threads industry in the PRC

- (i) **Brand development:** One of the major challenges faced by the manufacturers in the PRC has been their lack of product brand recognition. Such deficiency in brand development has hindered a more positive acceptance of brands and products from the PRC, especially in developed markets such as the United States.
- (ii) **Competition from low cost countries:** With the increase in labour costs, the PRC's leading position in textile and garment manufacturing has been under threat. Countries in The Association of Southeast Asian Nations region such as Vietnam and Bangladesh are emerging as alternatives for their low labour costs.

### Future trend of the sewing threads industry in the PRC

- (i) **Diversification of production:** Sewing thread products have become increasingly diversified over the past few decades as a result of the increase in customers' sophisticated demands, which are often a matter of preference, custom, or tradition. Sewing thread producers sell their products to satisfy the demands of garment manufacturers and to meet intensified competition. One of the world's leading thread producers provides as many as 1,024 popular shade choices.
- (ii) **Construction of brand system:** Customers including garment manufacturers and brand owners tend to work with branded sewing threads enterprises. Brand owners usually specify which brand of sewing threads is to be applied in their garment production. The leading domestic players are engaged in building up their brand image and reputation in order to compete with foreign brands, in particular, those in the mid- to high-end sewing thread segments.
- (iii) **Technology innovation:** Driven by the diversified usages and the positive policies launched by the PRC Government, including The 12th Five-year Plan of Textile Industry launched in 2012, market players embracing technical advantages such as automatic production bear more potentials to gain market popularity. On the other hand, as the sewing threads industry steps into maturity phase, technical innovation is expected to assist enterprises in outperforming the peers by improving original manufacturing procedures as well as saving money and time.
- (iv) **Exploration of applications beyond garment:** Constant improvements in raw materials and production procedures have gradually expanded downstream applications beyond garment. Emerging applications in automatic production, bedding/furniture and oil and gas have been explored by leading enterprises.

## INDUSTRY OVERVIEW

### COMPETITIVE LANDSCAPE OF THE SEWING THREADS INDUSTRY IN THE PRC

#### Overview of the competitive landscape of the sewing threads industry in the PRC

The sewing threads industry in the PRC is relatively fragmented with more than 10,000 sewing thread manufacturers. Leading sewing thread producers are distributed mainly in provinces including Zhejiang and Guangdong as they are able to benefit from regional industry clusters and obtain easy access to their target markets. The sewing thread manufacturers in Zhejiang, ranking third among all the provinces in the PRC in terms of the total garment production volume in 2015, mostly serve domestic garment brands while the sewing thread manufacturers in Guangdong mainly serve international brands. There were approximately 1,000 sewing thread manufacturers in Guangdong in 2016, and the market was rather fragmented with the top 10 sewing thread manufacturers accounting for only 41.3% of the market share in terms of production value in 2016. Unlike Guangdong, the sewing thread market in Zhejiang is relatively concentrated with the leading market participants dominating a majority of the sewing thread market in the PRC. Zhejiang ranked fourth among all provinces in the PRC in terms of the total consumption volume of sewing threads in 2016. Among the top 10 sewing thread manufacturers in the PRC, Company B, Company C and Company H are headquartered in Zhejiang.

#### Top 10 sewing thread manufacturers in the PRC in 2016

The sewing thread market in the PRC has seen the rise of a large number of local brands. Among the top 10 branded sewing thread manufacturers in the PRC, only three of them are subsidiaries of or joint ventures cooperated with multinational giants. Domestic manufacturers have won market share not only because they have been offering cheap products but also because they have been establishing corporate and product brands in the recent years. The top 10 participants collectively accounted for approximately 39.1% of the market share in terms of the production value of sewing threads in 2016.

Rank	Company	Approximate production value (RMB million), 2016	Market share of PRC production value, 2016	Main business
1	Company A	620	6.8%	Manufacturing engineered yarns, sewing threads, zips and embroidery threads
2	Company B	560	6.1%	Manufacturing dyed yarns (Baiyang) and sewing threads (Hujiang/Liuqing)
3	Company C	420	4.6%	Manufacturing yarns, polyester sewing threads, core spun threads and embroidery threads
4	Company D	400	4.4%	Manufacturing sewing threads, embroidery threads, technical textiles and consumer products

## INDUSTRY OVERVIEW

Rank	Company	Approximate production value (RMB million), 2016	Market share of PRC production value, 2016	Main business
5	Company E	380	4.1%	Manufacturing yarns and polyester sewing threads
6	Company F	360	3.9%	Manufacturing polyester sewing threads
7	Company G	245	2.7%	Manufacturing polyester threads, nylon threads and metallic threads
8	Company H	235	2.6%	Manufacturing yarns; cotton and polyester sewing threads, embroidery threads, fishing twine and elastic threads
9	Company I	200	2.2%	Manufacturing yarns, polyester sewing threads and nylon sewing threads
10	Company J	154	1.7%	Manufacturing yarns, cotton and polyester sewing threads, embroidery threads and fishing twine

*Source: CIC*

### Top 10 sewing thread manufacturers in Guangdong in 2016

Guangdong, which provides sufficient resources including cheap labour, convenient transportation as well as abundant supporting industries, has over 1,000 sewing thread manufacturers. With such a large number of market participants, the competition has been quite intense. The following table sets forth the production value and the corresponding market share of the top ten sewing thread manufacturers in Guangdong in 2016:

Rank	Company	Approximate production value (RMB million), 2016	Market share of Guangdong production value, 2016	Main business
1	Company A	620	13.6%	Manufacturing engineered yarns, sewing threads, zips and embroidery threads
2	Company D	400	8.8%	Manufacturing sewing threads, embroidery threads, technical textiles and consumer products

## INDUSTRY OVERVIEW

Rank	Company	Approximate production value (RMB million), 2016	Market share of Guangdong production value, 2016	Main business
3	Company G	245	5.4%	Manufacturing polyester threads, nylon threads and metallic threads
4	Company I	200	4.4%	Manufacturing yarns, polyester and nylon sewing threads
5	Company J	154	3.4%	Manufacturing yarns, cotton and polyester sewing threads, embroidery threads and fishing twine
6	Our Group	64	1.4%	Manufacturing polyester sewing threads
7	Company K	60	1.3%	Manufacturing sewing threads and textile bags
8	Company L	58	1.3%	Manufacturing cotton and polyester sewing threads
9	Company M	52	1.1%	Manufacturing polyester threads, metallic threads and nylon threads
10	Company N	30	0.6%	Manufacturing yarns, polyester sewing threads, nylon threads and belts

*Source: CIC*

The sewing thread market in Guangdong is relatively competitive with the top 10 participants collectively accounting for approximately 41.3% of the market share of Guangdong production in terms of production value in Guangdong in 2016. Our Group is the sixth largest sewing thread manufacturer in Guangdong in terms of production value in 2016, accounting for 1.4% of the market share of Guangdong with a production value of RMB64 million.

The gross profit margin of the top 10 sewing thread manufacturers in Guangdong in 2016 (except for Company K, Company L and Company N) ranged from approximately 15% to approximately 40%. In general, the sewing thread manufacturers in Guangdong targeting the mid- to high-end market have a relatively higher gross profit margin than those targeting the low-end market. The gross profit margin of our Group in 2016 was approximately 37.2%, which fell within the same range of the top 10 sewing thread manufacturers in Guangdong.

## INDUSTRY OVERVIEW

### Entry barriers of the sewing threads industry in the PRC

- (i) **Capital investment:** The development of sewing thread enterprises requires a large amount of capital support to purchase manufacturing equipment, employ skilful factory workers, pay for land rentals and ongoing operating expenses. Without a sufficient cash flow, it is difficult for new entrants to carry on regular production, expand their businesses and gain market share.
- (ii) **Industry know-how:** While experienced market players have accumulated abundant experience and industrial knowledge in the sewing thread production, new entrants lack practical experience in the sewing thread market. Hence, it takes time to obtain such industrial know-how and build up a well-known product brand.
- (iii) **Technical and processing requirements:** Different techniques and processing standards need to be applied to different sewing thread products, requiring strong technical reserve and coordinate ability. Therefore, it may be difficult for new entrants to come up with a highly efficient manufacturing process quickly.
- (iv) **Sales network:** Sewing thread manufacturers generally work directly with downstream clients such as garment brand owners. Mature participants in the sewing thread market have established efficient sales network with customers to maintain a long-run cooperation relationship. Without any brand value and sales network, new entrants require more time and capital to approach downstream clients.
- (v) **Environmental standards:** With the strict environmental policies promulgated increasingly for the purpose of reducing contamination caused by manufacturing industries, sewing thread enterprises tend to apply more advanced equipment in the operation process, employ more talented and experienced workers, outsource some manufacturing procedures to meet environmental standards. New entrants, without sufficient industrial knowledge, might find it difficult to face the challenges arising from the strict environmental policies.

## REGULATORY OVERVIEW

*This section sets forth a summary of the most significant PRC laws and regulations that affect our business and the industry in which we operate.*

### **LAWS AND REGULATIONS IN RELATION TO OUR BUSINESS OPERATION IN THE PRC**

#### **Establishment, Operation and Management of a Wholly Foreign-owned Enterprise**

The establishment, operation and management of corporate entities in the PRC is governed by the PRC Company Law (《中華人民共和國公司法》), which was promulgated by SCNPC on 29 December 1993 and came into effect on 1 July 1994. The PRC Company Law was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013. The latest amended PRC Company Law became effective on 1 March 2014. The PRC Company Law generally governs two types of companies — limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of shareholders of a limited liability company and a joint stock limited company is limited to the amount of registered capital they have contributed. The PRC Company Law shall also apply to foreign-invested companies. Where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange matters, accounting practices, taxation and labor matters of our PRC subsidiaries are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), which was promulgated on 12 April 1986 by the NPC and amended on 31 October 2000 and 3 September 2016 by the SCNPC, and the Regulations for the Implementation of the Wholly Foreign-owned Enterprises Law of the PRC (《中華人民共和國外資企業法實施細則》), which was promulgated on 12 December 1990 by the Ministry of Foreign Trade and Economic Cooperation and amended by the State Council on 12 April 2001 and 19 February 2014.

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment (《外商投資產業指導目錄》) (the “**Catalogue**”), which was jointly issued by the State Planning Commission, the State Economic and Trade Commission and the Ministry of Foreign Trade and Economic Cooperation in 1995, and amended in 1997, 2002, 2004, 2007, 2011, 2015 and 2017. The current effective Catalogue was issued on 28 June 2017, and came into force on 28 July 2017. The Catalogue contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign-invested industries and prohibited foreign investment. Any industry not listed in the Catalogue is a permitted industry.

Pursuant to the Catalogue (amended in 2017), the manufacturing and sales of sewing threads do not fall into the “restricted” or “prohibited” categories. Thus, we are permitted to engage in the manufacturing and sales of sewing threads in the PRC.



## REGULATORY OVERVIEW

### Product Quality

Products made in the PRC are subject to the Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the “**Product Quality Law**”), which was promulgated on 22 February 1993, amended on 8 July 2000 and 27 August 2009. According to the Product Quality Law, a manufacturer of a product is responsible to compensate for the damages to any person or property caused by the defect of such a product, unless the manufacturer is able to prove that: (i) it has not circulated the product; (ii) the defect did not exist at the time when the product was circulated; or (iii) scientific or technological knowledge at the time when the product was circulated was not such that it allowed the defect to be discovered.

The Tort Law of the PRC (《中華人民共和國侵權責任法》) was promulgated on 26 December 2009 and came into force on 1 July 2010 to clarify the tort liability, and to prevent and punish tortious conduct. Under this law, in the event of damage arising from a defective product, the victim may seek compensation from either the manufacturer or seller of such a product. If the defect is caused by the seller, the manufacturer shall be entitled to seek reimbursement from the seller upon compensation to the victim. If the defect is caused by the manufacturer, the seller shall be entitled to seek reimbursement from the manufacturer upon compensation to the victim.

As we are manufacturer and seller of sewing threads, we are obliged to be in compliance with the aforesaid laws and regulations on product quality.

### Registration for Import and Export Goods

Pursuant to the Customs Law of the PRC (《中華人民共和國海關法》) promulgated by the SCNPC on 22 January 1987 and amended on 8 July 2000, 29 June 2013, 28 December 2013 and 7 November 2016, unless otherwise stipulated, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the PRC customs. The consignees and consignors for import or export of goods and the customs brokers engaged in customs declaration shall register with the PRC customs in accordance with the laws.

Pursuant to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated by the General Administration of Customs on 13 March 2014, the consignees or consignors of imported and exported goods shall register with local customs in accordance with the laws.

Guangzhou Xinhua has obtained the Registration Certificate of the Customs for Declaration Entities, which is valid for a long term.

### **Labor Protection**

#### *Labor Contracts*

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) promulgated on 29 June 2007 and amended on 28 December 2012, and the Implementation Rule of the Labor Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) promulgated on 18 September 2008 set out specific provisions in relation to the execution, the terms and the termination of an employment contract and the rights and obligations of the employees and employers. At the time of hiring, the employer shall truthfully inform the employee as to the scope of work, working conditions, working place, occupational hazards, work safety, salary and other matters which the employee requests to be informed about.

#### *Social Insurance and Housing Provident Fund*

Employers in the PRC are required to contribute, on behalf of their employees, to a number of social insurance funds, including funds for basic pension insurance, for unemployment insurance, for basic medical insurance, for work-related injury insurance, for maternity insurance and for housing provident fund. These payments are made to local administrative authorities and an employer who fails to contribute may be fined and be ordered to make up for the outstanding contributions. The various laws and regulations that govern the employers' obligation to contribute to the social security funds include the Social Insurance Laws of the PRC (《中華人民共和國社會保險法》) promulgated by the SCNPC on 28 October 2010 and effective on 1 July 2011; the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), which was promulgated by the State Council on 22 January 1999 and became effective on the same date; the Regulation on Work-related Injury Insurance (《工傷保險條例》), which was promulgated by the State Council on 27 April 2003 and amended on 20 December 2010; and the Regulation on Management of the Housing Provident Fund (《住房公積金管理條例》), which was promulgated and became effective on 3 April 1999 and was then amended on 24 March 2002.

#### *Occupational Diseases Prevention and Control*

Pursuant to the Prevention and Control of Occupational Diseases Law of the PRC (《中華人民共和國職業病防治法》) promulgated on 27 October 2001 and the Measures for Reporting Hazardous Items of Occupational Disease (《職業病危害項目申報辦法》), promulgated on 27 April 2012 with effect from 1 June 2012, if any hazardous items causing an occupational disease as listed in the catalogue of occupational diseases exist in the work place of an employer, the employer shall truthfully report the hazardous items to the supervisory and administrative department of work safety at the place where it is located in a timely manner and accept supervision.

Pursuant to the Prevention and Control of Occupational Diseases Law of the PRC, an employer shall: (i) establish and improve the responsibility system of occupational disease prevention and treatment, strengthen the administration and improve the level of occupational disease prevention and treatment, and bear responsibility for the harm of occupational diseases engendered therefrom; (ii) pay work-related injury insurance in accordance with the laws; (iii) adopt effective protective facilities against occupational diseases, and provide protective articles to the employees for personal use against occupational diseases; (iv) set up alarm equipment, allocate on-spot emergency treatment articles,

## REGULATORY OVERVIEW

washing equipment, emergency safety exits and safety zones for poisonous and harmful work places where acute occupational injuries are likely to take place; and (v) inform the employees, according to the facts, of the potential harm of occupational disease as well as the consequences thereof and the protective measures and treatment against occupational diseases when signing a labor contract with employees.

### *Safe Production*

The PRC Work Safety Law (《中華人民共和國安全生產法》) (the “**Work Safety Law**”), was promulgated on 29 June 2002, came into effect on 1 November 2002 and was revised on 27 August 2009 and 31 August 2014. Pursuant to the Work Safety Law, the production and business operation entities must implement safe production as provided in laws, administrative regulations, national standards or industry standards.

Generally, any production and business operation entity with more than 100 employees shall establish an administrative body of safe production or have full-time personnel for the administration of safe production. Violation of the PRC Work Safety Law may result in the imposition of fines and penalties, the suspension of operation, an order to cease operation, and/or criminal liability in severe cases.

We should execute, implement and terminate labour contracts with our employees, as well as provide social insurance and housing provident fund to our employees in accordance with the PRC labour laws and regulations. We should conduct occupational disease prevention and treatment and implement safe production as required by PRC laws and regulations.

### **Environmental Protection**

#### *General Laws*

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the “**Environmental Protection Law**”), which was promulgated by the SCNPC and became effective on 26 December 1989 and amended on 24 April 2014, provides a regulatory framework to protect and improve the environment, prevent and reduce pollution and other public hazards, and safeguard human health. Enterprises and other manufacturers shall prevent and reduce environmental pollution and ecological damage as well as take the liabilities for the damages caused.

The Ministry of Environmental Protection of the PRC or its local counterparts shall impose different penalties on persons or enterprises in violation of the Environmental Protection Law depending on the different circumstances. Such penalties include fines, orders to rectify within prescribed period, orders to cease production, orders to re-install contamination prevention and treatment facilities which have been removed or left unused, imposition of administrative action against relevant responsible persons, or orders to shut down those enterprises.

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### *Prevention and Control of Various Pollutions*

The Law on Prevention and Control of Water Pollution of the PRC (《中華人民共和國水污染防治法》), as promulgated on 11 May 1984 and effective from 1 November 1984, revised on 15 May 1996 and 28 February 2008, the Law on Prevention and Control of Atmospheric Pollution of the PRC (《中華人民共和國大氣污染防治法》), as promulgated on 5 September 1987, revised on 29 August 1995, 29 April 2000 and 29 August 2015, as well as the Law on Prevention and Control of Environmental Noise Pollution of the PRC (《中華人民共和國環境噪聲污染防治法》), which was promulgated on 29 October 1996 and became effective on 1 March 1997, prescribe the details for the prevention and control of water pollution, atmospheric pollution and noise pollution respectively.

According to the Management Regulations of Environmental Protection of Construction Project (《建設項目環境保護管理條例》), which was promulgated by the State Council and became effective on 29 November 1998, the PRC practices a system for the evaluation of the environmental impact of a construction project. A construction entity shall, on or prior to commencement of construction or, during the phase of construction project feasibility study, submit the construction project environmental impact report, environmental impact report form or environmental impact registration form for approval. Further, the construction entity shall, during the certain construction stage or upon the completion of the construction project, file an application with the relevant department of environmental protection administration that examined and approved the said construction project for inspection and acceptance.

In addition, pursuant to the aforesaid laws, in case of new construction, expansion and reconstruction of projects, environmental impact procedures shall be followed.

### **Intellectual Property Rights**

#### *Trademark*

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) (the “**Trademark Law**”), which was amended on 30 August 2013 and with effect from 1 May 2014, the right to exclusive use of a registered trademark shall be limited to trademarks which have been registered and to goods for which the use of trademark has been permitted. The period of validity of a registered trademark shall be ten years, counted from the day the registration is made. According to the Trademark Law, (i) using a trademark that is identical with a registered trademark on the same goods without the authorization of the owner of the registered trademark; (ii) using a trademark that is similar to a registered trademark on the same goods or using a trademark that is identical with or similar to a registered trademark on similar goods without the authorization of the owner of the registered trademark, which is likely to cause confusion, shall be deemed to constitute an infringement of the exclusive right to use a registered trademark. The infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, pay damages and etc.

#### *Domain Names*

Pursuant to the Measures for Administration of Internet Domain Names for China (《中國互聯網絡域名管理辦法》), which was promulgated by the Ministry of Information Industry on 5 November 2004 and with effect from 20 December 2004, “domain name” shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the Internet protocol (IP) address of that computer. The principle of “first come, first serve” shall be

## REGULATORY OVERVIEW

followed for the domain name registration service. After completing the domain name registration, the applicant for the domain name registration becomes the holder of such domain name. Furthermore, the holder shall pay operation fees for registered domain names on schedule. If the domain name holder fails to pay the corresponding fees as required, the original domain name register shall write it off and notify the holder of the domain name in written form.

Our registered trademarks and registered domain names have been listed in the section headed “Statutory and General Information — B. Information about our Business — 2. Intellectual property rights of our Group” in Appendix IV to this prospectus. Such registered trademarks and registered domain names are and will be protected by the PRC intellectual property laws and regulations during their respective validity periods.

### Foreign Currency Exchange

The principal regulation governing foreign currency exchange in the PRC is the Regulation of the PRC for the Control of Foreign Exchange (《中華人民共和國外匯管理條例》) (the “**Foreign Exchange Regulation**”), promulgated by the State Council on 29 January 1996, and amended on 14 January 1997 and 5 August 2008. Under the regulation, Renminbi are freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but are not freely convertible for capital expenditure such as direct investment, loans or investments in securities outside the PRC unless the approval of the SAFE or its local counterpart is obtained in advance.

According to the Notice on Further Improving and Adjusting Management Policies on Foreign Exchange of Direct Investment (《關於進一步改進和調整直接投資外匯管理政策的通知》), promulgated by the SAFE on 19 November 2012 and effective from 17 December 2012 and amended on 4 May 2015, in relation to direct foreign investments in the PRC, foreign investors are no longer required to obtain approval from the SAFE to re-invest in the PRC by using income legally generated from the PRC. No approval from the SAFE is required for opening the foreign exchange accounts, payment into certain accounts, settlement of the foreign exchange and for the purchase and external payment of foreign exchange. Also, transfer of foreign exchange in the PRC under direct investment account is no longer subject to approval by the SAFE. In addition, the foreign-invested enterprises are permitted to remit funds to their offshore parent companies.

According to the Notice on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》), promulgated by the SAFE on 13 February 2015 and effective from 1 June 2015, verification and approval of foreign exchange registration under domestic direct investment is abolished. The banks shall, in accordance with relevant guidance, directly examine and handle foreign exchange registration under domestic direct investment. Relevant entities may, at their discretion, choose the banks in their respective places of registration to go through foreign exchange registration of direct investment, and may handle subsequent formalities for opening relevant accounts, fund exchange and other services (including the outflow or inflow of profits and dividends) under direct investment only after foreign exchange registration of direct investment is completed.

## REGULATORY OVERVIEW

### Dividend Distribution

The principal laws and regulations governing dividends distribution of foreign holding companies include the Company Law of the PRC (《中華人民共和國公司法》), the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》) and its implementation rules. Under these laws and regulations, foreign-invested enterprises in the PRC may pay dividends only out of their after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in the PRC, such as Guangzhou Xinhua, must allocate at least 10% of their respective accumulated profits after tax each year, if any, to fund certain reserve funds unless these accumulated reserves have reached 50% of its registered capital. These reserves are not distributable as cash dividends.

### LAWS AND REGULATIONS IN RELATION TO M&A RULES IN THE PRC

The Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (“**M&A Rules**”), which was jointly promulgated by MOFCOM, CSRC, the State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration of Industry and Commerce and SAFE on 8 August 2006, became effective on 8 September 2006 and was amended on 22 June 2009, governs, among other things, the purchase and subscription by foreign investors of equity interests in a domestic enterprise, and the purchase and operation by foreign investors of the assets and businesses of a domestic enterprise.

The M&A Rules is not applicable to our Group.

### LAWS AND REGULATIONS IN RELATION TO TAX IN THE PRC

#### Enterprise Income Tax

Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “**EIT Law**”), promulgated by the National People’s Congress on 16 March 2007 and became effective from 1 January 2008 and amended on 24 February 2017, the income tax rate for both resident enterprises and foreign-invested enterprises is 25% commencing from 1 January 2008 (with certain exceptions for qualified foreign-invested enterprises). In order to clarify certain provisions in the EIT Law, the State Council promulgated the Implementation Rules of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) (the “**EIT Implementation Rules**”) on 6 December 2007 which became effective on 1 January 2008. Pursuant to the EIT Law and the EIT Implementation Rules, non-resident enterprises which have not established agencies or offices in PRC, or which have established agencies or offices in PRC but whose income has no association with such agencies or offices, shall pay enterprise income tax on its income earned from inside PRC, and such income of non-resident enterprises shall be taxed at the reduced rate of 10% and shall be withheld at source, for which the payer thereof shall be the withholding agent.

## REGULATORY OVERVIEW

### Withholding income tax and international tax treaties

Pursuant to the EIT Law and the EIT Law Implementation Rules, dividends generated after 1 January 2008 and payable by a foreign-invested enterprise in PRC to its foreign investors are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of registration and incorporation has entered into a tax agreement with PRC which provides a different withholding tax arrangement. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for Avoidance of Double Taxation and Prevention of Tax Evasion (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) promulgated by the SAT on 21 August 2006, the applicable withholding income tax rate for any dividends declared by a Chinese company is 5% for a shareholder being a Hong Kong resident holding at least 25% interest in its registered capital, or 10% for a shareholder being a Hong Kong resident holding less than 25% interest in its registered capital.

According to the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (《非居民納稅人享受稅收協定待遇管理辦法》) which were promulgated on 27 August 2015 by the State Administration of Taxation and became effective on 1 November 2015, any non-resident taxpayer meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities. The term "non-resident taxpayers" refers to the taxpayers other than the PRC tax residents under the Provisions of domestic tax laws or conventions on the avoidance of double taxation signed by the government of the People's Republic of China with foreign countries (including the tax arrangements signed with the Hong Kong Special Administrative Region and the Macau Special Administrative Region (hereinafter collectively referred to as the "**Tax Conventions**") (including non-resident enterprises and non-resident individuals). The convention treatment means the deduction of or exemption from the enterprise income tax or individual income tax obligations required by the provisions of PRC tax laws, under the tax conventions or tax clauses of conventions on aviation, sea transportation, and automobile transportation, as well as the agreements or exchanges of letters on the mutual-exemption from tax on income from international transportation, signed by the People's Republic of China with foreign countries (hereinafter collectively referred to as the "**International Transportation Conventions**"), including the Arrangement between Mainland China and the Hong Kong Special Administrative Region for Avoidance of Double Taxation and Prevention of Tax Evasion.

According to the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) issued on 20 February 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment; and based on the Notice on the Interpretation and Recognition of Beneficial Owners in Tax Treaties (《關於如何理解和認定稅收協定中「受益所有人」的通知》), which was issued on 27 October 2009 by the SAT, and the Announcement on the Recognition of Beneficial Owners in Tax Treaties (《關於認定稅收協定中「受益所有人」的公告》), which was issued on 29 June 2012 by the SAT, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognized as beneficial owners and thus are not entitled to the above-mentioned reduced income tax rate of 5% under the Arrangement for Avoidance of Double Taxation.

## REGULATORY OVERVIEW

Pursuant to the Circular of the SAT on Printing and Issuing the Interim Administrative Measures for Income Tax Withheld at Source for Non-Resident Enterprises (《國家稅務總局關於印發〈非居民企業所得稅源泉扣繳管理暫行辦法〉的通知》) which was promulgated by the SAT on 9 January 2009 and became effective on 1 January 2009, with regard to dividends, bonuses and other equity investment proceeds and interest therefrom, rentals, royalties, property transfer income and other kinds of income earned by non-resident enterprises from inside PRC, on which enterprise income tax shall be levied, withholding tax at source shall be applicable thereto. Entities or individuals that have direct obligations to make relevant payments to non-resident enterprises in accordance with relevant legal provisions or contracts shall be the withholding agents. Each time a withholding agent pays or is due to pay an income as provided in this Circular to a PRC non-resident enterprise, the enterprise income tax shall be withheld from the sum paid or due to be paid.

### Value-added tax

Pursuant to the Interim Regulations on Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例》), promulgated by the State Council on 13 December 1993, amended on 10 November 2008 and 6 February 2016, and the Implementation Rules of the PRC Interim Regulations on Value-Added Tax (《中華人民共和國增值稅暫行條例實施細則》), promulgated by the Ministry of Finance on 25 December 1993, amended on 15 December 2008 and 28 October 2011, and the amendment became effective on 1 November 2011, sale of goods, provision of processing, repair and replacement services and import and export of goods within the PRC are subject to value-added tax (“VAT”). VAT payable is calculated as output VAT minus Input VAT. The VAT rate is 17% or, in certain limited circumstances, 13%, depending on the products, excluding small-scale taxpayers as defined in the Interim Regulations on Value-Added Tax of the PRC.

The major categories of taxes currently applicable to Guangzhou Xinhua are EIT and value-added tax, the rates of which are 25%, 17% (applicable to other clothing and other products) and 3% (applicable to commercial industry).

### Indirect Transfer of Properties by Non-Tax Resident Enterprises

In early February 2015, the SAT released a State Administration of Taxation Bulletin 2015 No. 7 Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises (《國家稅務總局公告2015年第7號 — 關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (SAT Bulletin 2015 No. 7, the “Bulletin 7”) to supersede certain provisions of the current Chinese tax rules in relation to the offshore indirect equity transfer as set forth in Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) or the Circular 698.

Bulletin 7 applies to such offshore indirect transfer of PRC Taxable Properties (“**Offshore Indirect Transfer**”) as: (i) immovable property in PRC, (ii) assets held under the establishment and place in PRC and (iii) equity-related interests in PRC resident company, directly or indirectly obtained by a non-resident company in PRC through the Offshore Indirect Transfer of its offshore intermediate holding subsidiary (“**Offshore Subsidiary**”). However, where Offshore Indirect Transfer of such Offshore Subsidiary is completed in a publicly traded securities market or is exempt from corporate income tax pursuant to applicable tax treaties or arrangements, the Bulletin 7 will not be applicable to such Offshore Indirect Transfer.



## REGULATORY OVERVIEW

Compared to Circular 698, Section 3 of Bulletin 7 offers comprehensive criteria as to whether an Offshore Indirect Transfer is one with reasonable business purpose.

Section 6 of the Bulletin 7 will deem the Offshore Indirect Transfer as one with reasonable commercial purpose, should such Offshore Indirect Transfer of Taxable Properties in PRC meet all the following conditions: (i) the holding structure of the transaction parties shall be that (a) the Transferor directly or indirectly controls 80% or more of the equity interests of Transferee, (b) the Transferee directly or indirectly controls 80% or more of the equity interests of Transferor, or (c) 80% or more of the equity interests of the Transferor and Transferee are commonly controlled, moreover, if over 50% of the value of the Offshore Subsidiary is directly or indirectly derived from the immovable properties in PRC, such equity holding percentage will be 100%, (ii) the corporate income tax imposed on the gains derived from the subsequent offshore indirect equity transfer transactions arising after the said Offshore Indirect Transfer will not be less than in such subsequent transactions as if without the occurrence of the said Offshore Indirect Transfer, and (iii) such Offshore Indirect Transfer will be paid by the Transferee with solely the equity interests (not including the listing shares) of such Transferee or its subsidiaries.

However, if such Offshore Indirect Transfer fails to be considered for the reasonable business purpose under Section 6, Section 4 of Bulletin 7 set forth the criteria that the Offshore Indirect Transfer will be straightforwardly considered without reasonable business purpose, meeting all the following factors: (i) 75% or more of the value of the Offshore Subsidiary is directly or indirectly derived from PRC Taxable Properties, (ii) at any time of or during 1 year ahead of such Offshore Indirect Transfer, 90% or more of the assets (cash excluded) or revenue is derived within PRC, (iii) the Offshore Subsidiary or its holding affiliates that directly or indirectly controls PRC Taxable Properties, despite due registration at its jurisdiction, can hardly perform duties or assume risks due to its lack of economic substance, and (iv) the corporate income tax incurred in PRC from the Offshore Indirect Transfer is less than the direct transfer of PRC Taxable Properties.

### LAWS AND REGULATIONS IN RELATION TO INTELLECTUAL PROPERTY IN THE PRC

#### International conventions

PRC is a party to several international conventions on intellectual property rights, including Agreement on Trade-Related Aspects of Intellectual Property Rights (《與貿易有關的知識產權協議》), Paris Convention for the Protection of Industrial Property (《保護工業產權巴黎公約》), Berne Convention for the Protection of Literary and Artistic Works (《伯爾尼保護文學和藝術作品公約》), World Intellectual Property Organization Copyright Treaty (《世界知識產權組織版權公約》), Madrid Agreement Concerning the International Registration of Marks (《商標國際註冊馬德里協議》) and Patent Cooperation Treaty (《專利合作條約》).

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### Patent

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》) (the “**Patent Law**”), promulgated by the Standing Committee of the National People’s Congress on 12 March 1984, amended on 4 September 1992, 25 August 2000 and 27 December 2008 and the Implementation Rules of the Patent Law of the PRC (《中華人民共和國專利法實施細則》), promulgated by the State Council on 19 January 1985 and amended on 21 December 1992, 15 June 2001, 28 December 2002 and 9 January 2010, there are three types of patent in the PRC: invention patent, utility model patent and design patent. The protection period is 20 years for invention patent and 10 years for utility model patent and design patent, commencing from their respective application dates. Any individual or entity that utilises a patent or conducts any other activity in infringement of a patent without prior authorisation of the patentee shall pay compensation to the patentee and is subject to a fine imposed by relevant administrative authorities and, if constituting a crime, shall be held criminally liable in accordance with the law.

### Trademark

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) (the “**Trademark Law**”), promulgated by the Standing Committee of the National People’s Congress on 23 August 1982, amended on 22 February 1993, 27 October 2001 and 30 August 2013, the period of validity for a registered trademark is 10 years, commencing from the date of registration. Upon expiry of the period of validity, the registrant shall go through the formalities for renewal within twelve months prior to the date of expiry as required if the registrant needs to continue to use the trademark. Where the registrant fails to do so, a grace period of six months may be granted. The period of validity for each renewal of registration is 10 years, commencing from the day immediately after the expiry of the preceding period of validity for the trademark. In the absence of a renewal upon expiry, the registered trademark shall be cancelled. Industrial and commercial administrative authorities have the authority to investigate any behaviour in infringement of the exclusive right under a registered trademark in accordance with the law. In case of a suspected criminal offence, the case shall be timely referred to a judicial authority and decided according to law.

### Domain Name

Pursuant to the Administrative Measures for Internet Domain Names of the PRC (《中國互聯網絡域名管理辦法》) promulgated by the Ministry of Information Industry (now known as the Ministry of Industry and Information Technology) on 5 November 2004 and effective from 20 December 2004, a domain name shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the Internet protocol (IP) address of such computer. The principle of “first come, first served” applies to domain name registration service. After completing the domain name registration, the applicant will become the holder of the registered domain name. Furthermore, the holder shall pay operation fees for registered domain names on schedule. If the domain name holder fails to pay corresponding fees as required, the original domain name registrar shall deregister the relevant domain name and notify the holder of deregistration in written forms.

## REGULATORY OVERVIEW

### REGULATIONS RELATING TO COMPANY ESTABLISHMENT AND OPERATION OF BUSINESS IN HONG KONG

#### **Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong)**

The Business Registration Ordinance requires every entity that carries on a business in Hong Kong to apply for business registration within 1 month from the date of commencement of the business, and to display a valid business registration certificate at the place of business.

#### **Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong)**

The Inland Revenue Ordinance is an ordinance for the purposes of imposing taxes on property, earnings and profits in Hong Kong. The Inland Revenue Ordinance provides, among others, that persons, which include corporations, partnerships, trustees and bodies of persons, carrying on any trade, profession or business in Hong Kong are chargeable to tax on all profits (excluding profits arising from the sale of capital assets) arising in or derived from Hong Kong from such trade, profession or business. As at the Latest Practicable Date, the standard profits tax rate for corporations is 16.5%. The Inland Revenue Ordinance also contains provisions relating to, among others, permissible deductions for outgoings and expenses, set-offs for losses and allowances for depreciation.

#### **Competition Ordinance (Chapter 619 of the Laws of Hong Kong)**

The Competition Ordinance is designed to promote competition and prohibit anti-competitive practices. It prohibits three types of anti-competitive conduct described under the First Conduct Rule, the Second Conduct Rule and the Merge Rule which are collectively known as the “competition rules”. Examples of conduct which may contravene the Competition Ordinance include agreeing with competitors to fix prices, share markets, rig bids or restrict output. Penalties include fines of up to 10% of the guilty party’s Hong Kong based turnover for up to three years of the period during which the guilty party committed such behavior. Other penalties may include the disgorgement of unlawful profits, positive or negative injunctive relief, invalidation of anticompetitive agreements and the disqualification of the directors involved in anti-competitive conduct.

The First Conduct Rule prohibits anti-competitive agreements while the Second Conduct Rule prohibits abuse of market power.

The First Conduct Rule prohibits businesses from making or giving effect to an agreement, engaging in a concerted practice, or making or giving effect to a decision of an association, if the object or effect is to harm competition in Hong Kong. Generally speaking, the First Conduct Rule disallows any arrangement between businesses in the market (whether they are competitors or not), which prevent, restrict or distort competition in Hong Kong. Whether the object of an agreement is anti-competition is to be determined by objective assessment. Agreement to fix prices, to share markets, to restrict output or to rig bids generally speaking are harmful to competition.

## **REGULATORY OVERVIEW**

Generally speaking, the Second Conduct Rule (i) prohibits businesses with a substantial degree of market power from abusing that power by engaging in conduct that has the object or effect of harming competition in Hong Kong; and (ii) disallows big businesses using their positions or market shares to jeopardize competition such as using a price lower than market price to drive out other competitors. The following are non-exhaustive examples of abuse of substantial degree of market power: (a) predatory pricing: to set the price so low to force out competitors; (b) tying and bundling to harm the competitors for other products of the same bundle; (c) margin squeeze; (d) refusal to deal; and (e) exclusive dealing.

### **REGULATIONS RELATING TO LABOUR, HEALTH AND SAFETY IN HONG KONG**

#### **Employment Ordinance (Chapter 57 of the Laws of Hong Kong)**

The Employment Ordinance is a main piece of legislation governing conditions of employment in Hong Kong.

Section 43C of the Employment Ordinance provides that the principal contractor and/or every superior sub-contractor shall jointly and severally be liable to pay wages due to sub-contractor's employees for performing any sub-contracted work, if the said wages are not paid within the prescribed period under the Employment Ordinance.

However, the said principal contractor and/or every superior sub-contractor may recover such payment of wages from the sub-contractor, who hires the said employees, pursuant to section 43F of the Employment Ordinance.

#### **Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)**

The Employees' Compensation Ordinance establishes a no-fault and non-contributory employee compensation system for work injuries and sets out rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases thereunder.

Section 40 of the Employees' Compensation Ordinance provides that employers must take out insurance policies to cover liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees, regardless of the length of the employment contract or working hours, full-time or part-time employment.

Under section 24 of Employees' Compensation Ordinance, a principal contractor is liable to pay compensation to its sub-contractor's employees if the said employees are injured at work which the subcontractor was contracted to perform. However, the principal contractor may recover such compensation from the sub-contractor who would have been liable to compensate the injured employees.

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### **Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong)**

The Minimum Wage Ordinance sets out a prescribed minimum hourly wage rate for employees (other than employees who are covered by section 7 of the Minimum Wage Ordinance) who are engaged under an employment contract, which has been increased to HK\$32.5 per hour since 1 May 2015.

Any provision of the employment contract which extinguishes or reduces the employee's right, benefit or protection as provided by the Minimum Wage Ordinance is void.

### **Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong)**

The Mandatory Provident Fund Schemes Ordinance is an ordinance for the purpose of providing for the establishment of the non-governmental mandatory provident fund schemes. Except for exempt persons, employees (regular or casual) and self-employed persons who are at least 18 but under 65 years of age are required to join a mandatory provident fund scheme.

### **Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)**

The purpose of the Occupational Safety and Health Ordinance is to ensure the safety and health of employees when they are at work. It is applicable to, with only a few exceptions, all employers and occupier of premises where workplaces are located.

Particularly, every employer must as far as reasonably practicable:

- provide and maintain plant and systems of work that are safe and without risks to health;
- make arrangements for ensuring safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances;
- provide necessary information, instruction, training and supervision to ensure safety and health at work;
- keep the workplace and provide and maintain means of access to and egress from the workplace in a condition which is safe and without risks to health, if the workplace is under the employer's control; and
- provide and maintain a working environment safe and without risks to health.

An employee while at work also need to take care for the safety and health of persons who are at the employee's workplace and who may be affected by the employee's acts or omissions at work. In addition, an employee must co-operate with his employer or other person so far as may be necessary to enable requirement imposed in the interests of safety or health.

# HISTORY, REORGANISATION AND CORPORATE STRUCTURE

## OUR HISTORY AND BUSINESS DEVELOPMENT

### Introduction

Our business can be traced back to December 1978 when our factories were established in Hong Kong to principally engage in the manufacturing and selling of sewing threads. Our Group was founded by Mr. Chan Chi Kong, an Independent Third Party, back in 1978. We moved our factories and manufacturing process from Hong Kong to the PRC from 1995 and have continuously been improving our operation efficiency. In 2008, Mr. Chan Chi Kong intended to retire. With vision on the prosperous future of the Group, Mr. Wong, who had been the management consultant to Tseyu International since 1995 at the time, acquired the Group from Mr. Chan Chi Kong and his wife, Ms. Leung Miu Chu, both of whom are Independent Third Parties.

### Milestones in our business development

The following events are the key business development milestones of the business of our Group:

December 1978	Mr. Chan Chi Kong established factories for operation in Hong Kong
June 1993	Guangzhou Xinhua was incorporated
January 1995	Our manufacturing process was moved from Hong Kong to Guangzhou and we commenced to build up relationships with PRC customers
November 2000	Guangzhou Xinhua was awarded with ISO 9001 certificate issued by DNV GL-Business Assurance, the Netherlands

## OUR CORPORATE DEVELOPMENTS

As at the Latest Practicable Date, our Group had either established or reorganised a number of operating subsidiaries to carry out our businesses. The major corporate developments including major shareholding changes of members of our Group which were material to the performance of our Group during the Track Record Period are set out below:

### Jinxin China

Jinxin China was incorporated in Hong Kong on 12 February 1999. Since November 2008, K.M.L. Consultants Limited and Acco Consultants Limited became the shareholders of Jinxin China, holding 4,000,000 shares of Jinxin China representing 80% of the issued share capital of Jinxin China and 1,000,000 shares of Jinxin China representing 20% of the issued share capital of Jinxin China respectively. All the shares of Jinxin China were held on trust by K.M.L Consultants Limited and Acco Consultants Limited for Mr. Wong due to the requirement under the predecessor Companies Ordinance under which a company must have two shareholders and for the ease of administration. Since it was acquired by Mr. Wong, the beneficial owner, Jinxin China was primarily engaged as an investment holding company. Jinxin China was principally engaged as an investment holding vehicle for the acquisition of Tseyu International in October 2008. In 2008, as part of the arrangement for the acquisition of Tseyu International between Mr. Wong and Mr. Chan Chi Kong, Tseyu International terminated its employment with all of its employees at the time of acquisition and severance payments

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

were paid by Mr. Chan Chi Kong to these employees as a token of appreciation for their long-term loyalty and services to Tseyu International under the leadership of Chan Chi Kong. As further agreed between Mr. Wong and Mr. Chan Chi Kong, Tseyu International would not retain its employees after the acquisition since the amount of severance payment might become higher if any of the employees continued the employment with Tseyu International after the acquisition. To carry on the business operation, some of these employees dismissed by Tseyu International then signed new employment contracts with Jinxin China as newly employed staff and were seconded to Tseyu International. Since then, Tseyu International, which needed staff for its operation, engaged Jinxin China as a service provider, whereby employees from Jinxin China were seconded to Tseyu International (the “**Engagement**”) at a fee calculated on the basis of mainly the staff costs incurred under such arrangements (the “**Management Fee**”). In preparation for the proposed Listing, the Engagement was terminated and the five staff members who rendered services to our Group under the Engagement were transferred from Jinxin China to Tseyu International in June 2016. Neither the termination of the management service relationship with Jinxin China nor the transfer of the five employees affected the business operation and the financial condition of our Group for the reason that (i) the Management Fee paid by Tseyu International represented largely the same amount of the salaries incurred in relation to the secondment of the five employees to Tseyu International; and (ii) the Management Fee was a minimal amount. For details of the Management Fee paid by the Group during the Track Record Period, please refer to the paragraph headed “II. Notes to the Historical Financial Information — 32. Related party transactions” in Appendix I to our prospectus.

Jinxin China confirms that the revenue, net loss and negative operating cash flow before change of working capital of Jinxin China during the Track Record Period were (i) approximately HK\$1.1 million, HK\$0.8 million and HK\$0.8 million for the year ended 31 December 2015, respectively; and (ii) approximately HK\$0.4 million, HK\$0.6 million and HK\$0.6 million for the year ended 31 December 2016, respectively. Thus, had Jinxin China been included in our listing Group, there would not have been any material impact on the operating cash flow before change of working capital flow of our Group during the Track Record Period. Jinxin China also confirms that (i) the total expenses on staff costs for the year ended 31 December 2015 amounted to approximately HK\$1.8 million, of which HK\$1.1 million had been spent on the employees who had been seconded to Tseyu International. The remainder of the staff costs, amounting to approximately HK\$0.7 million, was incurred in the salaries of the administrative and executive staff of Jinxin China (including approximately HK\$0.4 million for the office manager and approximately HK\$0.3 million for the director of Jinxin China and his driver); and (ii) the total expenses on staff costs for the year ended 31 December 2016 amounted to approximately HK\$0.9 million, of which HK\$0.4 million had been spent on the employees who had been seconded to Tseyu International. The remainder of the staff costs, amounting to approximately HK\$0.5 million, was incurred in the salaries of the office manager. Jinxin China’s total operating expenses amounted to approximately HK\$31,000 and HK\$107,000, respectively, for the two years ended 31 December 2016, which covered the expenses that are usually incurred by an investment holding company, including bank charges, overdraft interest, auditor’s remuneration and accountancy fee.

In order to streamline the structure of the Group, Jinxin China is no longer a member of the Group after the Reorganisation. To the best of our Directors’ knowledge after having made all reasonable enquiries, our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, Jinxin China was not involved in any legal proceedings or litigation and had complied in all material aspects with all applicable laws and regulations.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### **Tseyu International**

Tseyu International was incorporated in Hong Kong on 17 March 1978 and commenced business in December 1978. At the time of its incorporation, Tseyu International was wholly-owned by Mr. Chan Chi Kong and Ms. Leung Miu Chu. In October 2008, Jinxin China acquired the entire issued shares of Tseyu International from Mr. Chan Chi Kong and Ms. Leung Miu Chu. Due to the requirement under the predecessor Companies Ordinance under which a company must have two shareholders, K.M.L. Consultants Limited, the nominee shareholder, held 5% issued shares of Tseyu International on trust for Jinxin China to handle its investments.

As at the Latest Practicable Date, Tseyu International was primarily engaged in trading of sewing threads.

### **Newchamp Industries**

Newchamp Industries was incorporated in Hong Kong on 18 March 1993 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. After a series of allotments and transfers of shares during the period from July 1993 to October 2008, up to 27 October 2008, Tseyu International held 24,000,000 shares of Newchamp Industries while Jinxin China held 6,000,000 shares of Newchamp Industries. Immediately prior to the Reorganisation, Newchamp Industries were held as to 20% by Jinxin China and 80% by Tseyu International.

As at the Latest Practicable Date, Newchamp Industries was primarily responsible for the administration work in relation to customers from Hong Kong.

### **Guangzhou Xinhua**

Guangzhou Xinhua was established in the PRC on 18 June 1993 with the initial registered capital of HK\$25 million and commenced business in 1995. At the time of its establishment, Guangzhou Xinhua was established as a sino-foreign cooperative joint venture enterprise (the “CJV”) for a term of 30 years by Newchamp Industries and our Chinese joint venture partner, Guangzhou Fangcun Zengjiao Economic Development Company (廣州市芳村增潛經濟發展公司), an Independent Third Party. Pursuant to the CJV agreement and subsequent supplemental agreements, such joint venture partner provided a parcel of land in Guangzhou with a site area of approximately 17,560 sq. m. as a cooperation condition and was responsible for the provision of utilities and water pipes; whereas Newchamp Industries injected capital of HK\$25 million by way of the equipment and/or cash and were responsible for the operations.

Subsequent to a series of capital injections which took place between November 1995 to January 2002, the registered capital of Guangzhou Xinhua increased to approximately HK\$52.25 million which has been fully paid up by Newchamp Industries. To take control over Guangzhou Xinhua, Newchamp Industries entered into a termination agreement with such joint venture partner to discontinue the cooperative joint venture arrangement in October 2003. In December 2003, the Foreign Trade and Economic Bureau of Fangcun District of Guangzhou approved such termination. Immediately after such termination, Guangzhou Xinhua as a wholly owned foreign enterprise was wholly owned by Newchamp Industries, which were in turn owned as to 80% by Tseyu International and 20% by Jinxin China in 2008.



## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

In October 2008, Guangzhou Xinhua became a member of our Group following (a) the acquisition of the entire issued shares of Tseyu International by Jinxin China as disclosed in the paragraph headed “Our Corporate Developments — Tseyu International” above; and (b) the acquisition of 20% of the issued shares of Newchamp Industries by Jinxin China from Independent Third Parties.

As at the Latest Practicable Date, Guangzhou Xinhua was primarily engaged in the manufacturing and selling of sewing threads.

### **Cheerful Keen**

Cheerful Keen was incorporated in the BVI on 5 January 2010 with an authorised share capital of US\$50,000.00 divided into 50,000 shares of US\$1.00 each and responsible for the administration of all the overseas business. On 1 January 2014 K.M.L. Consultants Limited, the nominee shareholder, held the one share in Cheerful Keen representing 100% of the issued share capital of Cheerful Keen on trust on behalf of Tseyu International. On 11 April 2014, K.M.L. Consultants Limited transferred one share in Cheerful Keen representing 100% of the issued share capital of Cheerful Keen to Jinxin China, which held such one share in Cheerful Keen on trust on behalf of Tseyu International. Such trust arrangement was cancelled on 10 June 2016 as Jinxin China transferred one share in Cheerful Keen representing 100% of the issued share capital of Cheerful Keen to Tseyu International.

As at the Latest Practicable Date, Cheerful Keen was not engaged in any operation.

### **Foshan Zhihua**

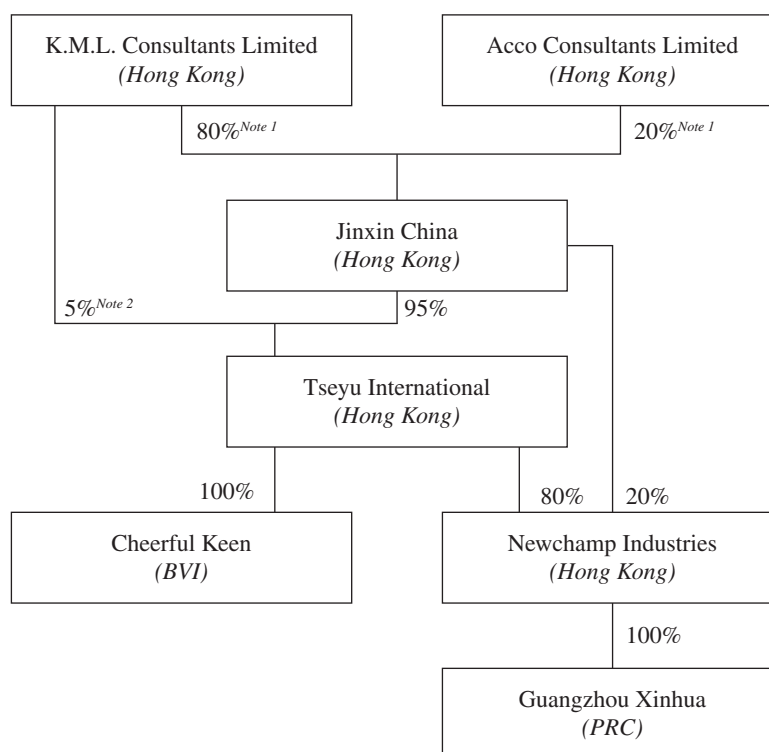
Foshan Zhihua was established in the PRC on 23 January 2014 with the initial registered capital of RMB500,000 all of which has been paid up. Since the date of its establishment and up to 19 June 2016, Foshan Zhihua was wholly owned by Guangzhou Xinhua. Guangzhou Xinhua transferred the entire equity interest in Foshan Zhihua to Zhou Yiyang, an Independent Third Party, at the consideration of RMB500,000 which was determined with reference to the registered capital of Foshan Zhihua, on 20 June 2016. Since the establishment of Foshan Zhihua and up to the aforesaid disposal, there had been no operation in Foshan Zhihua. Foshan Zhihua was intended to engage in the dyeing process. However, our Group found it more cost efficient to outsource the dyeing process. Therefore, our Group disposed of Foshan Zhihua on 20 June 2016 at par value.

# HISTORY, REORGANISATION AND CORPORATE STRUCTURE

## THE REORGANISATION

In June 2017, we commenced the Reorganisation in preparation for the Listing. In anticipation of the Listing, we undertook a restructuring exercise whereupon our Company became the holding company and listing vehicle of our Group.

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



Notes:

- (1) K.M.L. Consultants Limited and Acco Consultants Limited held 80% and 20% of the entire issued shares of Jinxin China respectively on trust for Mr. Wong.
- (2) K.M.L. Consultants Limited held 5% of the entire issued shares of Tseyu International on trust for Jinxin China.

## Incorporation of Three Gates Investment

Three Gates Investment was incorporated in the BVI with limited liability on 15 August 2016 to act as the holding company for the interest of Jinxin China in our Company. The initial authorised share capital of Three Gates Investment was US\$50,000 divided into 50,000 ordinary shares of US\$1.00 each and one fully-paid share was allotted and issued at par to Mr. Wong.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### **Incorporation of our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 18 August 2016 in order to act as the holding company of our Group's business and operations. The initial authorised share capital of our Company was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. Upon incorporation, one fully-paid Share was allotted and issued at par to Reid Services Limited, the initial subscriber, at par, who then transferred such Share to Three Gates Investment on the same day. Upon completion of such share transfer, our Company was wholly owned by Three Gates Investment.

### **Incorporation of Strat Tech Holdings**

Strat Tech Holdings was incorporated in the BVI with limited liability on 25 August 2016 so as to act as the intermediate holding company of our Group. The initial authorised share capital of Strat Tech Holdings was US\$50,000 divided into 50,000 ordinary shares of US\$1.00 each and one fully-paid share was allotted and issued at par to our Company. Upon completion of such allotment and issue, Strat Tech Holdings was wholly-owned by our Company.

### **Acquisition of 20% of the issued shares of Newchamp Industries**

On 22 June 2017, Tseyu International acquired 20% of the issued shares of Newchamp Industries from Jinxin China at a consideration of HK\$13 million, which was determined with reference to the net asset value of Newchamp Industries as at 31 May 2017. The consideration for such acquisition was satisfied by part, unconditional and irrevocable discharge of the obligations and liabilities of Jinxin China in respect of a non-interest bearing loan due and owing by Jinxin China to Tseyu International pursuant to a deed of settlement dated 22 June 2017 entered into among Jinxin China, Tseyu International and Newchamp Industries pursuant to which, out of the indebtedness Jinxin China owed to Tseyu International, a sum of HK\$13 million was used for the settlement and set-off the consideration of HK\$13 million for Tseyu International to acquire the 20% of the issued shares of Newchamp Industries. Upon completion of such acquisition, Newchamp Industries was direct wholly owned by Tseyu International.

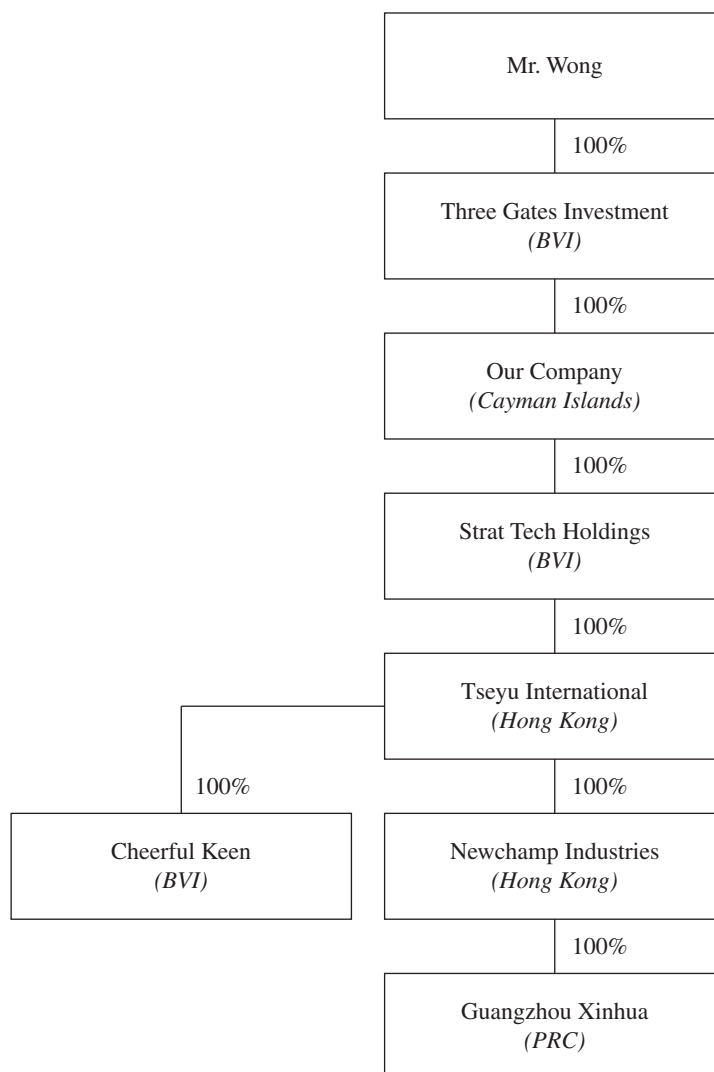
### **Acquisition of Tseyu International**

On 22 June 2017, the trust arrangement under which K.M.L. Consultants Limited held 5% issued shares of Tseyu International on trust for Jinxin China was cancelled and on the same day, K.M.L. Consultants Limited transferred the 5% issued shares of Tseyu International to Jinxin China at nil consideration. On 22 June 2017, Strat Tech Holdings acquired the entire issued shares of Tseyu International from Jinxin China at a consideration of approximately HK\$28 million, which was determined with reference to the net asset value of Tseyu International as at 31 May 2017. A deed of assignment of receivables was entered into among Guangzhou Xinhua, Cheerful Keen, Newchamp Industries, Strat Tech Holdings and Jinxin China on 31 May 2017, pursuant to which Jinxin China has assigned the loans of (i) HK\$2.9 million in Newchamp Industries; (ii) HK\$14.1 million in Cheerful Keen; and (iii) HK\$11.0 million in Guangzhou Xinhua, together to Strat Tech Holdings. The consideration for the acquisition was satisfied by part, unconditional and irrevocable discharge of the obligations and liabilities of Jinxin China in respect of a non-interest bearing loan due and owed by Jinxin China to Strat Tech Holdings pursuant to a deed of settlement dated 22 June 2017 entered into among Strat Tech Holdings, Jinxin China and Tseyu International, under which Strat Tech Holdings and

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Jinxin China settle and set off the indebtedness of HK\$28 million Jinxin China owed to Strat Tech Holdings against the consideration of HK\$28 million for Strat Tech Holdings to acquire the entire issued shares of Tseyu International. Upon completion of such acquisition, Tseyu International became an indirect wholly-owned subsidiary of our Company.

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



### INCREASE OF AUTHORISED SHARE CAPITAL

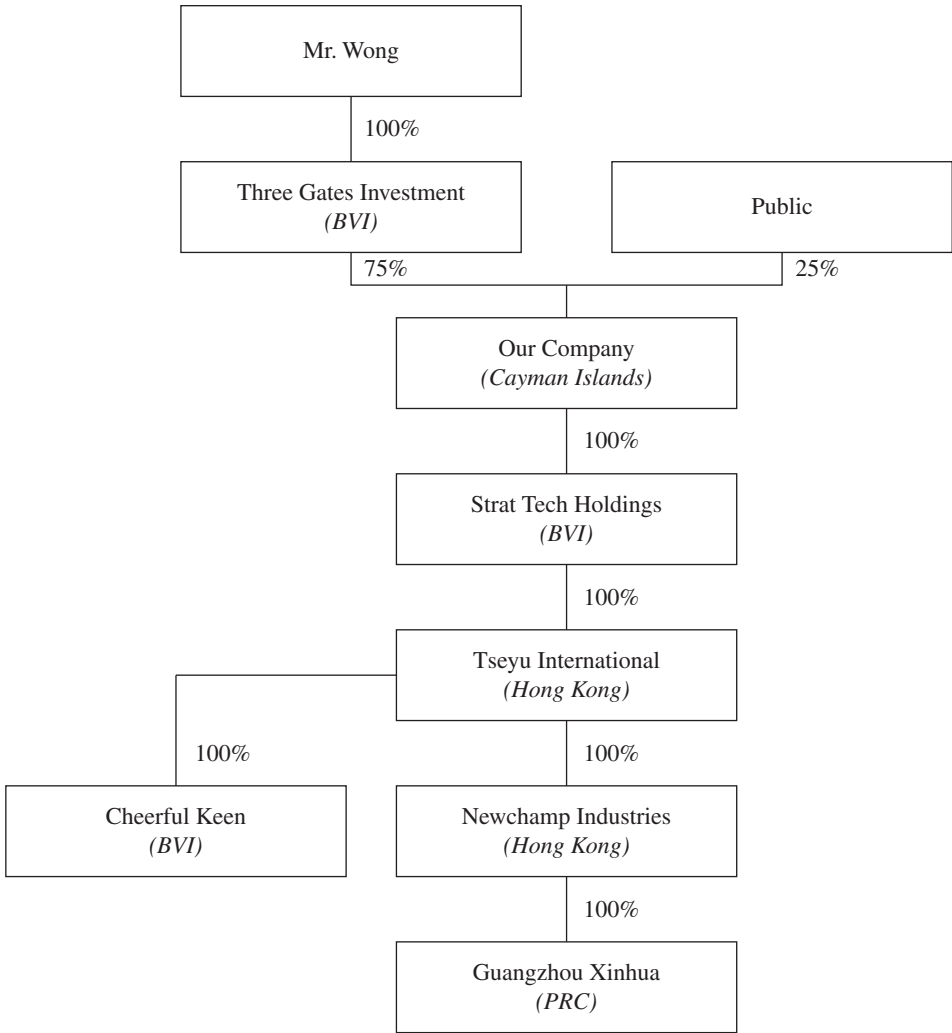
The authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$50,000,000 divided into 5,000,000,000 Shares by the creation of an additional 4,962,000,000 Shares.

# HISTORY, REORGANISATION AND CORPORATE STRUCTURE

## CAPITALISATION ISSUE

Conditional on the share premium account of our Company being credited as a result of the issue of the Offer Shares pursuant to the Share Offer, an amount of HK\$5,999,999.99 standing in the credit of the share premium account of our Company will be credited and applied to pay up in full at par a total number of 599,999,999 Shares for allotment and issue to Three Gates Investment on the register of members of our Company on the date of this prospectus.

The following chart sets forth our shareholding structure immediately upon completion of the Capitalisation Issue and the Share Offer (assuming the Offer Size Adjustment Option is not exercised and taking no account of any Shares to be issued upon the exercise of any options that may be granted under the Share Option Scheme to be adopted by our Company):



## OVERVIEW

Our Group is principally engaged in the manufacturing and selling of sewing threads. We currently manufacture polyester sewing threads, which are mainly used for garments. Our major product for sale is 100% spun polyester sewing threads. We also offer other types of sewing threads, namely textured polyester series, elastic filament sewing threads and weft yarn. Our products are manufactured in our Guangzhou Production Facilities in Liwan, Guangzhou and sold in the PRC, Hong Kong and overseas.

In accordance with the CIC Report, our Group ranked sixth in the sewing threads industry in Guangdong province, occupying 1.4% of the market share in Guangdong province in terms of the production value in 2016.

Since commencement of our business operation, our Group has been offering polyester sewing threads to customers in the PRC, Hong Kong and overseas countries, including UAE, Mauritius, Australia, Germany and the United Kingdom. Our customers are mainly garment manufacturers and wholesalers.

## OUR COMPETITIVE STRENGTHS

We believe that our Group possesses the following strengths which contribute to our success and distinguish us from our competitors:

### **Our Group has maintained long-term business relationships with our customers and suppliers**

Our Group places much emphasis on establishing stable and long-term relationships with our customers as we understand that this is essential to our business development. The customer base of our Group covers large garment manufacturers in Guangdong province and sewing thread trading companies worldwide. Customers with large scale of operation place relatively high standards on their suppliers' capabilities in procurement, quality control and logistics management and opt for working with suppliers whom they are familiar with. We seek to offer our customers products of high quality. In addition, we ensure that our products are delivered to our customers in a timely manner. We also endeavour to give prompt response to our customers' requests and feedback. Our Group is capable of satisfying customers' needs for high quality and differentiated products and thus we have maintained a long-term and strong relationship with our customers. Our Directors believe that what we offer to our customers are to their satisfaction and this not only helps enhance our reputation but also enables us to build a solid customer base by earning recurring business from our customers. Further, according to the CIC Report, garment customers increasingly procure sewing thread materials from branded manufacturers. Brand images have therefore been critical for market participants. Our Group has built up a strong brand image since its establishment in 1978 and our "Xinhua" ("新華") sewing thread products have become well known in the sewing thread industry. Such a solid customer base would be conducive to the implementation of our expansion plan as well as the sustainability of our long-term growth. As at the Latest Practicable Date, our Group had maintained business relationships with our top five customers for a period ranging from one to 18 years.

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To gain the satisfaction of our customers, we need to ensure that we have the ability to consistently offer products of good quality. Our products for sale are mainly sewing threads, of which the raw material is fibre. We may also purchase yarn directly from our yarn suppliers. As at the Latest Practicable Date, we had maintained business relationships with our five largest suppliers for a period ranging from one to 14 years. Our Directors believe that given such good and stable business relationships with our raw material suppliers and our yarn suppliers, we are able to secure a timely and steady supply of our raw materials of premium quality.

### **We adopt a stringent quality control mechanism to ensure our product quality**

Maintaining effective quality control is the key to producing sewing threads of good quality. Our quality control department, consisting of five of our staff members, is responsible for conducting quality control on our products. We adopt a stringent quality control mechanism under which different tests are performed on our raw materials and products at various stages of our operation process, including the procurement of raw materials, the twisting and waxing of threads and the packaging of sewing threads. Over the course of our business, our emphasis on manufacturing our products, together with our ability to maintain effective quality control, has enhanced our customers' confidence in us.

Our Group has been accredited with the certification of "ISO 9001:2008 Quality Management System" since 2000 in recognition of our effective management and "OEKO-TEX Standard 100" since 2002 in recognition of the good quality of the raw materials, intermediate and end products at all stages of our production. Please refer to the paragraph headed "Awards and Certification" in this section for further details of our accreditations.

### **Our strategic location allows us to be better positioned for the business development of our Group**

According to the CIC Report, Guangdong province ranked first among different provinces and regions in the PRC in terms of total garment production volume in 2015. Our Guangzhou Production Facilities and PRC office are strategically based in Guangzhou city, Guangdong province, which is close to the centre of the textile industry in the PRC. Our directors believe that such close proximity to the hub of the textile industry in the PRC allows us to have easy access to industry news and market information, efficient communication with our existing customers as well as greater exposure to our potential customers.

Given our favourable geographical location, our Directors believe that it would increase our business opportunities and help facilitate our future growth.

### **We have an experienced management team with extensive industry experience**

The management team of our Group has remained quite stable since its establishment, including, without limitation to, its executive management, operation and technical personnel, who have extensive knowledge and experience in the textile industry. The members of the management team has have brought years of experience and a history of success to our Group. They are experienced in procurement, production, technology as well as marketing. Our management team is led by Mr. Wong, our chairman and executive Director, possesses more than ten years of experience in the sewing threads industry (including trading our sewing threads to customers) and extensive knowledge of relevant management skills. With his experience in the sewing threads industry, Mr. Wong has developed strong relationships with key market participants, which enables our Group to anticipate market trends when formulating our positioning and development strategies. Since he joined our Group, Mr. Wong has played a leading role in the overall business growth and has accumulated ample knowledge in the sewing threads industry. Mr. Wong is primarily responsible for the overall strategic and business direction of our Group. Mr. Lee Wing Hong, our executive Director and Chief Financial Officer, has more than 15 years of experience in the field of and extensive knowledge of relevant financial and accounting skills. Prior to joining our Group, Mr. Lee Wing Hong worked as the auditor-in-charge for various manufacturing companies in the PRC and Hong Kong. From his previous employment at various manufacturing companies, Mr. Lee accumulated his experience and financial management skills, which are conducive to his directorship of our Group. Mr. Lee Wing Hong is primarily responsible for the financial management of our Group.

In addition to the management of our Group under Mr. Wong and Mr. Lee Wing Hong, we have dedicated and experienced staff as members of our senior management. Mr. She Siu Ming, who is responsible for overseeing the operations and management of our Guangzhou Production Facilities, has over 15 years of experience in the textile industry. Mr. Lui Hak Kong, our production manager, is responsible for monitoring the operation process of our production facilities. He is experienced in the production aspect of the textile industry. Mr. Wong Pak Yip, our sales manager, is in charge of the sales and marketing aspect of our Group. He is proficient in the sales and marketing skills required for the thread business. Each of Mr. She Siu Ming, Mr. Lui Hak Kong and Mr. Wong Pak Yip have joined our Group for more than 15 years. Under the leadership of such a strong and firm management team, our Group has been leading in the sewing thread production in Guangdong province. We believe that the relevant knowledge and experience of our executive Directors and our senior management have contributed to our Group's growth and development and will also be instrumental to our future success.



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### **Our equipment and technology ensures production capability**

In accordance with the CIC Report, the requirement for large initial capital investment on machinery and equipment sets high barriers for new entrants as the quality of products relies largely on the machinery and equipment or technology that are applied in the production. Our Group is well equipped with automatic sewing thread machines and tools to ensure production capability. With such equipment and technology, our Group is able to timely and safely deliver sewing thread products. We currently have five production lines, comprising various machine groups, in operation for the production of our 100% spun polyester sewing threads and other threads, including textured polyester series, elastic filament sewing threads and weft yarn. Despite the fact that we are equipped with automatic machines to facilitate our current operation, the frequency of our machines requiring repairs and maintenance has been increasing after many years of operation. As such, our Directors are of the view that upgrading our machinery is of the essence for our Group in order to enhance our competitive strength. Please refer to the paragraph headed “Our Business Strategies — Enhancing our production capacity by upgrading our existing machinery” in this section for further details.

### **OUR BUSINESS STRATEGIES**

Our Group has an objective of attaining sustainable growth in the industry. Accordingly, we have devised the following business strategies to work towards this objective:

#### **Enhancing our production capacity by upgrading our existing machinery**

The majority of our products are 100% spun polyester sewing threads. As at the Latest Practicable Date, for the manufacturing of 100% spun polyester sewing threads, we had one production line in operation for the cone winding and two production lines for the waxing and winding. During the Track Record Period, the designed production capacity of our relevant production machines for the waxing and winding of 100% spun polyester sewing threads production lines was approximately 39.6 million km, 34.7 million km and 12.3 million km, respectively, on an annual basis assuming full operation. For the two years ended 31 December 2016 and the five months ended 31 May 2017, our existing production facilities produced an aggregate of 39.6 million km, 34.2 million km and 12.4 million km of 100% spun polyester sewing threads, respectively, representing 100.1%, 98.8% and 101.2% of the designed aggregate production capacity, respectively. Among our aggregate designed production capacity, the designed production capacity of 100% spun polyester sewing threads for industrial use for the two years ended 31 December 2016 and the five months ended 31 May 2017 was approximately 30.3 million km, 25.4 million km and 8.7 million km, respectively, based on the production for 18 hours per day and 224 days per year. As at the Latest Practicable Date, for the waxing and winding of textured polyester sewing threads, elastic filament sewing threads and weft yarn, we had one production line in operation for the cone winding and one production line for the waxing and winding. For the two years ended 31 December 2016 and the five months ended 31 May 2017, the designed production capacity of our relevant production machines for the waxing and winding of textured polyester sewing threads, elastic filament sewing threads and weft yarn was approximately 17.6 million km, 17.2 million km and 5.8 million km, respectively, on an annual basis assuming full operation. For the two years ended 31 December 2016 and the five months ended 31 May 2017, our existing production facilities produced an aggregate of 11.5 million km, 9.0 million km

## BUSINESS

and 3.4 million km of textured polyester sewing threads, elastic filament sewing threads and weft yarn, respectively, representing 65.4%, 52.6% and 59.5% of the designed aggregate production capacity.

To increase our production capacity as well as efficiency, our Group plans to upgrade our existing production machines for the production of our 100% spun polyester sewing threads.

We target to replace certain machines from our production lines with more advanced and automated ones to perform the cone winding as well as the waxing and winding processes of 100% spun polyester sewing threads with 69% of the net proceeds from the Share Offer. The new waxing and winding machines for our 100% spun polyester sewing threads would have an annual designed production capacity of approximately 28.5 million km in aggregate. To facilitate our production lines for our 100% spun polyester sewing threads, we plan to acquire new cone winding machines. The new cone winding machines would have an annual designed production capacity of approximately 13.1 million km in aggregate. Given such replacement and addition of our production machines, the technological advancement and increased automation of the new machinery would facilitate the manufacturing of 100% polyester sewing threads in a more efficient manner. Further, our production capacity could be raised to cater for an increase in demand for our polyester sewing threads. For details of our planned purchase of new production machines, please refer to the section headed “Future Plans and Use of Proceeds — Reasons for the Share Offer and Use of Proceeds” of this prospectus.

### **Broadening our product range by introducing nylon threads**

In our course of business, we mainly sell polyester sewing threads, which are generally used for garments. Given the stable demands for our polyester sewing threads from our customers, we plan to broaden our product range by introducing nylon threads. According to the CIC Report, nylon threads, which have the features of good strength, elasticity and resistance, are suitable for overlock stitching in garments. In addition, nylon threads are used in a wide spectrum of products including, but not limited to, body shaping undergarments, footwear and furniture. Further, according to the CIC Report, the consumption value of nylon sewing threads in the PRC is expected to increase at a CAGR of 8.0% between 2016 and 2021, reaching RMB4,210.6 million by 2021. We therefore aim to develop our nylon thread business by taking a progressive approach. To start with, we plan to establish new production lines to cater for the manufacturing of nylon threads. We plan to acquire new machinery specifically for the production of nylon threads with 9% of the net proceeds from the Share Offer. These nylon thread making machines are expected to have an annual designed production capacity of approximately 1.2 million km in aggregate. We expect to officially launch the sale of nylon threads within three months upon the full operation of these machines. Our Directors believe that the launch of our production lines for nylon threads would cater for the needs of our existing customers as well as attract potential customers who demand quality nylon threads. Our Directors further believe that the expansion of our production range will further consolidate and/enlarge our customer base, diversify our income streams as well as enhance our competitive position. For details of our planned purchase of machines for the production of nylon threads, please refer to the section headed “Future Plans and Use of Proceeds — Reasons for the Share Offer and Use of Proceeds” of this prospectus.

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### Expanding our sales network

Currently, our PRC sales team is based in Guangzhou City, Guangdong Province. To carry out our expansion plan, we plan to strengthen our sales and marketing network. Hence, we plan to set up a sales office in Zhejiang Province. According to the CIC Report, Zhejiang Province ranked third among all the provinces in the PRC in terms of the total garment production volume in 2015 and ranked fourth among all provinces in the PRC in terms of the total consumption volume of sewing threads in 2016. To set up a sales office in Zhejiang Province, we can better coordinate our sales efforts on exploring new business opportunities in the province. Our Directors believe that such a sales office can offer a more direct and effective channel for our products to reach potential customers in Zhejiang Province. To facilitate the operation of our sales office in Zhejiang Province, we will recruit a new sales team of around five people who are proactive, experienced in the textile industry and/or well equipped with sales and marketing skills. Our sales team stationing in Guangdong Province will continue to maintain our relationships with existing customers as well as attempt to reach potential customers in Guangdong Province. Our Directors are of the view that with the introduction of nylon threads in our product range, it would be cost efficient to increase our sales and marketing efforts and allocate the work by region.

During the Track Record Period and up to the Latest Practicable Date, we had not yet established our sales office in Zhejiang province and no expenses had been incurred in the recruitment of our new sales team, which is to station in either Zhejiang province.

### OUR BUSINESS MODEL

Our Group is principally engaged in the manufacturing and selling sewing threads.

During the Track Record Period, we sold our products in the PRC, Hong Kong as well as overseas. The table below sets forth the breakdown of our revenue attributable to domestic and overseas sales of our sewing threads for the two years ended 31 December 2016 and the five months ended 31 May 2017:

	For the year ended 31 December				For the five months	
	2015		2016		ended 31 May	
	Revenue	% of total	Revenue	% of total	Revenue	% of total
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
PRC sales	48,449	58.5	38,733	53.3	12,986	49.8
Hong Kong sales	5,426	6.5	5,964	8.2	2,984	11.4
Overseas sales ( <i>Note</i> )	28,954	35.0	27,927	38.5	10,135	38.8
Total	82,829	100.0	72,624	100.0	26,105	100.0

*Note:* During the Track Record Period, we exported our products to countries including, but not limited to, UAE, Mauritius, Australia, Germany and the United Kingdom.

## BUSINESS

### Customers development

Our sales staff visit our existing customers from time to time to enhance our business relationships. During the visits, we try to understand our customers' demands in detail and respond to their new requests, if any. In addition, based on the updated information collected, our sales staff try to explore business opportunities by reaching out to potential customers.

### Production

The major raw material for the production of our sewing threads is yarn, which is made from fibre. There are two channels, through which we can obtain yarn. Firstly, we source fibre from our fibre supplier and provide it to our approved yarn manufacturers from the list. These yarn manufacturers process our fibre into yarn and deliver it to our Guangzhou Production Facilities. Secondly, we purchase yarn directly from our list of approved yarn suppliers. We turn our yarn into sewing threads by means of the machines at our Guangzhou Production Facilities. We engage dyeing subcontractors to dye the sewing threads into the colours at our customers' request.

Our Group places great emphasis on the quality of our products. Hence, we have implemented different quality testing procedures at various stages throughout our production process in order to ensure that our products are of premium quality. For details of our quality control, please refer to the paragraph headed "Quality Control" in this section.

### Packaging and delivery

When the dyed sewing threads are available, they will be packaged based on our customers' orders and we will then arrange delivery of our products to the locations specified by our customers.

## OUR PRODUCTS

### Sewing threads

We currently manufacture polyester sewing threads, which are mainly used for garments. Our major product for sale is 100% spun polyester sewing threads. We also offer other types of sewing threads, namely, textured polyester series, elastic filament sewing threads and weft yarn.

The table below sets out the breakdown of revenue by sewing thread types we offered for sale during the Track Record Period:

	For the year ended 31 December				For the five months ended 31 May	
	2015		2016		2017	
	Revenue	% of total	Revenue	% of total	Revenue	% of total
	<i>(HK\$'000)</i>	<i>(%)</i>	<i>(HK\$'000)</i>	<i>(%)</i>	<i>(HK\$'000)</i>	<i>(%)</i>
100% spun polyester sewing threads	72,680	87.7	65,267	89.9	23,539	90.2
Others <i>(Note)</i>	10,149	12.3	7,357	10.1	2,566	9.8
<b>Total</b>	<b>82,829</b>	<b>100.0</b>	<b>72,624</b>	<b>100.0</b>	<b>26,105</b>	<b>100.0</b>

*Note:* Others comprise textured polyester series, elastic filament sewing thread series and weft yarn.

## BUSINESS

### *100% spun polyester sewing threads*

The 100% spun polyester sewing thread is our core product for sale. According to the CIC Report, this type of sewing threads has high strength and elongation, excellent chemical resistance, good colour fastness, abrasion and UV resistance. We offer 100% spun polyester sewing threads of various thicknesses and the usage of this type of sewing threads varies with the thickness of the threads. Generally, our 100% spun polyester sewing threads can be used in garments and accessories made of different cloths like cotton, nylon, twill, denim, canvas, PVC fabric and waterproof fabric.

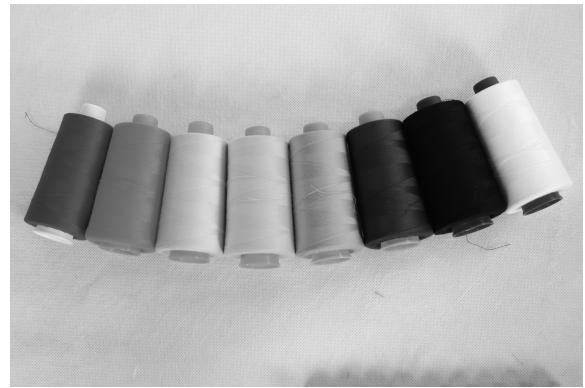
### *Others*

We also produce other items, including textured polyester series, elastic filament sewing threads and weft yarn. Textured polyester series have a smooth feel and few knots. Elastic filament sewing threads have good elasticity. Both textured polyester series and elastic filament sewing threads are generally used for overlock stitching. Weft yarn, which has a core evenness and strength, is suitable for use in care labels.

Set out below are pictures showing sewing threads produced by us:



100% spun polyester sewing threads  
for domestic use

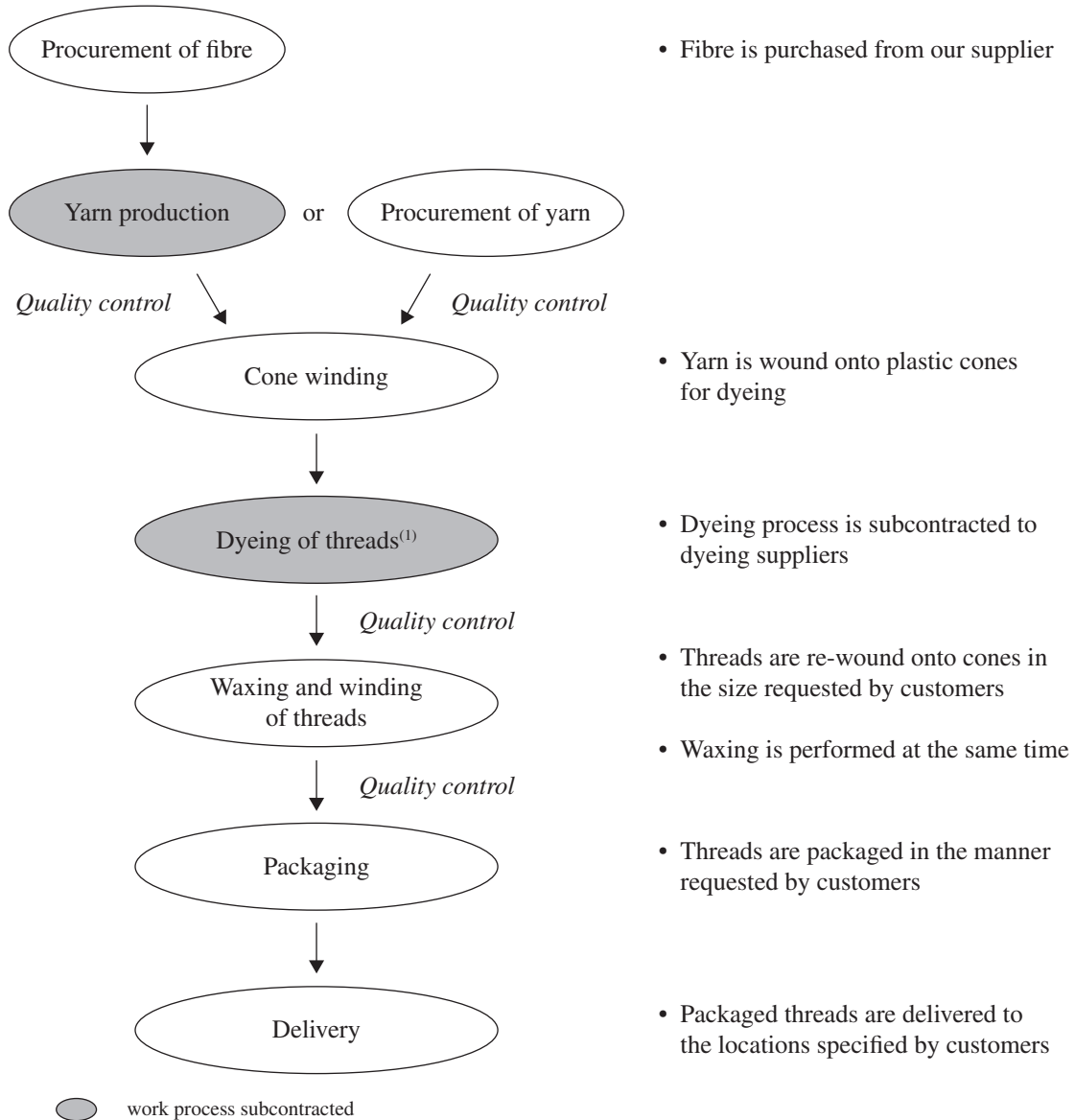


100% spun polyester sewing threads  
for industrial use

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## OUR PRODUCTION PROCESS

The diagram below illustrates the typical manufacturing process of our sewing threads:



Note:

1. During the Track Record Period, we performed the dyeing process for our sewing threads at our Guangzhou Production Facilities. We ceased the operation of our dyeing facilities in May 2016. Since May 2016, we have subcontracted the dyeing process to external dyeing production facilities.

Should we start with the procurement of fibre, the average production lead time from procurement of fibre to delivery of our sewing threads is approximately 23 days. If we purchase yarn directly from yarn suppliers, the average production lead time from procurement of yarn to delivery of our sewing threads is approximately five days.

**Procurement of fibre**

To prepare for the production of our sewing threads, we need to procure fibre. We place an order for fibre with our fibre supplier. Please refer to the paragraph headed “Raw Materials and Suppliers — Procurement of raw materials” in this section for further details.

**Yarn production and procurement of yarn**

Yarn is manufactured from fibre. We engage our approved yarn manufacturers to process the fibre into yarn. The fibre we purchase is directly delivered to our approved yarn manufacturers, which will do the processing for us. We also purchase yarn from our approved yarn suppliers. Our yarn suppliers will deliver the yarn to our Guangzhou Production Facilities. For ease of handling, we often request our yarn manufacturers and yarn suppliers to perform the doubling and twisting process for us. Where necessary, we may do the doubling and twisting work at our Guangzhou Production Facilities.

**Cone winding**

Yarn is wound onto plastic cones to facilitate better effects of dyeing.

**Dyeing of threads**

We engage our approved dyeing subcontractors to perform dyeing for our threads. We may purchase dyeing agents on our own and provide them to the dyeing subcontractors. We may also ask the dyeing subcontractors to procure dyeing agents on our behalf. Our dyeing subcontractors will deliver the dyed sewing threads to our Guangzhou Production Facilities. Please refer to the paragraph headed “Subcontracting of dyeing process” in this section for further details.

**Waxing and winding of threads**

Dyed sewing threads are re-wound on cones in the length required by our customers at our Guangzhou Production Facilities. At the same time, waxing is also performed on the sewing threads to enhance their smoothness.

**Packaging**

Finished sewing threads are properly covered with wraps and then packaged in the manner as requested by our customers. Labels, indicating the features of the sewing threads such as the thickness and the colour, are placed on the packages.

**Delivery**

For our PRC sales, delivery of our products is made by road transportation. We deliver our packaged sewing threads from our production facilities to the locations specified by our PRC customers using our delivery trucks. Where necessary, we may engage third party logistics service providers to make the delivery. For our Hong Kong and overseas sales, we arrange shipment of our products to the destinations provided by our Hong Kong and overseas customers.

## **BUSINESS**

Throughout the manufacturing process, we perform inspection and testing at various stages to ensure that our sewing threads meet our quality requirements. Please refer to the paragraph headed “Quality Control” in this section for further details.

### **OUR PRODUCTION FACILITIES**

We have one location for our production facilities, the Guangzhou Production Facilities, which commenced operation in 1995.

Our Guangzhou Production Facilities are located in Liwan, Guangzhou. The facilities occupy a gross floor area of approximately 11,275 square metres. Our Guangzhou Production Facilities are used for the production of our sewing threads.

Our production processes are automated. During the Track Record Period and up to the Latest Practicable Date, other than those subcontracted, all our production processes were carried out in our Guangzhou Production Facilities. As at the Latest Practicable Date, we had five production lines in operation at our Guangzhou Production Facilities.

#### **Sewing thread processing**

During the Track Record Period, we had one processing line at our Guangzhou Production Facilities to carry out the dyeing process for our sewing threads. We ceased the operation of our dyeing facilities in May 2016. Since May 2016, we have subcontracted the dyeing process of all our sewing threads to independent dyeing production facilities. Please refer to the paragraph headed “Subcontracting Arrangements — Subcontracting of dyeing process” in this section for further details.

#### **Sewing thread production**

During the Track Record Period and up to the Latest Practicable Date, our Group had five production lines in operation at our Guangzhou Production Facilities. For the cone winding, we had two production lines — one production line for our 100% spun polyester sewing threads for both industrial and domestic use and one for our other threads, namely, textured polyester series, elastic filament sewing threads and weft yarn. For the waxing and winding, we had three production lines — one production line for each of our 100% spun polyester sewing threads for industrial use and our 100% spun polyester sewing threads for domestic use, and one production line for our other threads.



## BUSINESS

The majority of our products are 100% spun polyester sewing threads, which are classified into two broad categories: 100% spun polyester sewing threads for industrial use and 100% spun polyester sewing threads for domestic use. The length of each cone of 100% spun polyester sewing threads for industrial use ranges from approximately one km to six km whereas the length of each cone of 100% spun polyester sewing threads for domestic use ranges from approximately 200 m to 600 m. In addition to 100% spun polyester sewing threads, we also offer other threads, including textured polyester series, elastic filament sewing threads and weft yarn. The tables below set out a summary of the designed production capacity and utilisation rate of the different machines we had in relation to the production of our 100% spun polyester sewing threads as well as our other threads during the Track Record Period:

### *100% spun polyester sewing threads*

*Production line 1: Cone winding for 100% spun polyester sewing threads (for both industrial and domestic use)*

	Year since operation	Year ended 31 December					Five months ended 31 May			
		2015			2016		2017			
		Designed production capacity <sup>(1)</sup> ( <sup>'000</sup> km)	Actual production volume ( <sup>'000</sup> km)	Approximate utilisation rate <sup>(2)</sup> (%)	Designed production capacity <sup>(1)</sup> ( <sup>'000</sup> km)	Actual production volume ( <sup>'000</sup> km)	Approximate utilisation rate <sup>(2)</sup> (%)	Designed production capacity <sup>(1)</sup> ( <sup>'000</sup> km)	Actual production volume ( <sup>'000</sup> km)	Approximate utilisation rate <sup>(2)</sup> (%)
Cone winding machine group A <sup>(3)</sup>	2004–2005	46,467	41,666	89.7	36,012	33,766	93.8	14,174	12,291	86.7

*Production line 2: Waxing and winding for 100% spun polyester sewing threads for industrial use*

	Year since operation	Year ended 31 December					Five months ended 31 May			
		2015			2016		2017			
		Designed production capacity <sup>(4)</sup> ( <sup>'000</sup> km)	Actual production volume ( <sup>'000</sup> km)	Approximate utilisation rate <sup>(2)</sup> (%)	Designed production capacity <sup>(4)</sup> ( <sup>'000</sup> km)	Actual production volume ( <sup>'000</sup> km)	Approximate utilisation rate <sup>(2)</sup> (%)	Designed production capacity <sup>(4)</sup> ( <sup>'000</sup> km)	Actual production volume ( <sup>'000</sup> km)	Approximate utilisation rate <sup>(2)</sup> (%)
Waxing and winding machine group A <sup>(5)(6)(7)</sup>	1994–2001	21,241	24,382	114.8	16,295	19,404	119.1	5,179	6,616	127.8
Waxing and winding machine group B	1999–2010	5,891	4,962	84.2	5,891	5,066	86.0	2,270	2,104	92.7
Waxing and winding machine group C	2012	3,188	2,941	92.3	3,188	2,779	87.2	1,228	1,133	92.3
<b>Total</b>		<b>30,320</b>	<b>32,285</b>	<b>106.5</b>	<b>25,374</b>	<b>27,249</b>	<b>107.4</b>	<b>8,677</b>	<b>9,853</b>	<b>113.6</b>

## BUSINESS

### *Production line 3: Waxing and winding for 100% spun polyester sewing threads for domestic use*

	Year since operation	Year ended 31 December					Five months ended 31 May			
		Designed production capacity <sup>(8)</sup> ( <sup>'000 km</sup> )	2015		Approximate utilisation rate <sup>(2)</sup> (%)	2016		2017		
			Actual production volume ( <sup>'000 km</sup> )	Approximate utilisation rate <sup>(2)</sup> (%)		Designed production capacity <sup>(8)</sup> ( <sup>'000 km</sup> )	Actual production volume ( <sup>'000 km</sup> )	Approximate utilisation rate <sup>(2)</sup> (%)	Designed production capacity <sup>(8)</sup> ( <sup>'000 km</sup> )	Actual production volume ( <sup>'000 km</sup> )
Waxing and winding machine group D	1995	546	479	87.6	546	411	75.2	211	149	71.0
Waxing and winding machine group E	1999–2010	8,225	6,390	77.7	8,225	6,195	75.3	3,169	2,255	71.2
Waxing and winding machine group F	1997	513	479	93.4	513	391	76.3	198	142	72.0
<b>Total</b>		<u>9,284</u>	<u>7,347</u>	79.1	<u>9,284</u>	<u>6,997</u>	75.4	<u>3,578</u>	<u>2,547</u>	71.2

*Notes:*

- The designed production capacity is based on our management's estimate of the length of products that our workforce at our Guangzhou Production Facilities are capable of producing on an annual basis. The designed production capacity of Production line 1 is derived from the assumption that our Guangzhou Production Facilities are in production for 18 hours with two shifts per day and 244 days per year and 94 days for the five months ended 31 May 2017, with the planned number of production workers, planned production mix and the planned production capacity per worker per hour.
- The utilisation rate is calculated based on the actual output for the relevant year/period divided by the designed production capacity during the corresponding year/period.
- The machines from cone winding machine group A from Production line 1 also facilitate the cone winding process for our textured polyester series. The total designed production capacity of cone winding machine group A, comprising that for 100% spun polyester sewing threads and that for textured polyester series, was approximately 47.1 million km, 36.9 million km and 14.2 million km during the Track Record Period, respectively. The total actual production volume of cone winding machine group A, comprising that for 100% spun polyester sewing threads and that for textured polyester series, was approximately 42.3 million km, 34.6 million km and 12.3 million km during the Track Record Period, respectively.
- The designed production capacity is based on our management's estimate of the length of products that our workforce at our Guangzhou Production Facilities are capable of producing on an annual basis. The designed production capacity of Production line 2 is derived from the assumption that our Guangzhou Production Facilities are in production for 18 hours with two shifts per day and 244 days per year and 94 days for the five months ended 31 May 2017, with the planned number of production workers, planned production mix and the planned production capacity per worker per hour.
- The machines from waxing and winding machine group A from Production line 2 also facilitate the waxing and winding process for our textured polyester series. The total designed production capacity of waxing and winding machine group A, comprising that for 100% spun polyester sewing threads and that for textured polyester series, was approximately 22.4 million km, 17.1 million km and 5.2 million km during the Track Record Period, respectively. The total actual production volume of waxing and winding machine group A, comprising that for 100% spun polyester sewing threads and that for textured polyester series, was approximately 25.6 million km, 20.2 million km and 6.7 million km during the Track Record Period, respectively.
- Our actual production volume for 100% spun polyester sewing threads for industrial use exceeded the corresponding designed production capacity because we allocated more manpower in response to the market demand for the corresponding year/period.

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7. To the best of the knowledge, information and belief of our Directors, the high utilisation rate is mainly due to the fact that we adjusted the working hours of our workers and hired extra workers on an as-needed basis to respond to the market demand for the corresponding year/period.
8. The designed production capacity of Production line 3 sewing threads for domestic use is derived from the assumption that our Guangzhou Production Facilities are in production for nine hours with one shift per day and 244 days per year and 94 days for the five months ended 31 May 2017, with the planned number of production workers, planned production mix and the planned production capacity per worker per hour.

During the Track Record Period, the utilisation rate of Production line 1 maintained at approximately 89.7%, 93.8% and 86.7% for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively. The designed production capacity of Production line 1 decreased from 46.5 million km (a monthly average of approximately 3.9 million km) for the year ended 31 December 2015 to approximately 36.0 million km (a monthly average of approximately 3.0 million km) for the year ended 31 December 2016. The monthly average designed production capacity further dropped from approximately 3.0 million km for the year ended 31 December 2016 to approximately 2.8 million km for the five months ended 31 May 2017. During the Track Record Period, the utilisation rate of Production line 2 maintained at approximately 106.5%, 107.4% and 113.6% for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively. The designed production capacity of production line 2 decreased from approximately 30.3 million km (a monthly average of approximately 2.5 million km) for the year ended 31 December 2015 to approximately 25.4 million km (a monthly average of approximately 2.1 million km) for the year ended 31 December 2016. The monthly average designed production capacity further dropped from approximately 2.2 million km for the year ended 31 December 2016 to approximately 1.7 million km for the five months ended 31 May 2017. Among the three machine groups, waxing and winding machine group A had reflected a significant decrease in the designed production capacity. For further details, please refer to the section headed “Future Plans and Use of Proceeds — Reasons for the Share Offer and Use of Proceeds” of this prospectus. The main reason for the declining designed production capacity is that the machines for such a production line, which had been functioning for a long time, required frequent maintenance and repairs. The maintaining of the utilisation rate of our production line is due to our adjustment of working hours and hiring of extra workers, which only act as an interim and contingent measure to increase our production volume in the short term.

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### *Other threads (textured polyester series, elastic filament and weft yarn)*

#### *Production line 4: Cone winding for textured polyester series, elastic filament sewing threads and weft yarn*

	Year since operation	Year ended 31 December					Five months ended 31 May			
		2015			2016		2017			
		Designed production capacity <sup>(1)</sup> ( <i>'000 km</i> )	Actual production volume ( <i>'000 km</i> )	Approximate utilisation rate <sup>(2)</sup> (%)	Designed production capacity <sup>(1)</sup> ( <i>'000 km</i> )	Actual production volume ( <i>'000 km</i> )	Approximate utilisation rate <sup>(2)</sup> (%)	Designed production capacity <sup>(1)</sup> ( <i>'000 km</i> )	Actual production volume ( <i>'000 km</i> )	Approximate utilisation rate <sup>(2)</sup> (%)
Cone winding machine group A <sup>(3)</sup>	2004–2005	620	620	100	838	838	100	22	22	100
Cone winding machine group B	2003–2004	9,186	3,566	38.8	9,186	2,473	26.9	3,539	847	23.9
Cone winding machine group C	2005–2007	<u>18,105</u>	<u>7,666</u>	42.3	<u>18,105</u>	<u>7,495</u>	41.4	<u>6,975</u>	<u>1,930</u>	27.7
<b>Total</b>		<u>27,911</u>	<u>11,851</u>	42.5	<u>28,129</u>	<u>10,806</u>	38.4	<u>10,536</u>	<u>2,799</u>	26.6

#### *Production line 5: Waxing and winding for textured polyester series, elastic filament sewing threads and weft yarn*

	Year since operation	Year ended 31 December					Five months ended 31 May			
		2015			2016		2017			
		Designed production capacity <sup>(1)</sup> ( <i>'000 km</i> )	Actual production volume ( <i>'000 km</i> )	Approximate utilisation rate <sup>(2)</sup> (%)	Designed production capacity <sup>(1)</sup> ( <i>'000 km</i> )	Actual production volume ( <i>'000 km</i> )	Approximate utilisation rate <sup>(2)</sup> (%)	Designed production capacity <sup>(1)</sup> ( <i>'000 km</i> )	Actual production volume ( <i>'000 km</i> )	Approximate utilisation rate <sup>(2)</sup> (%)
Waxing and winding machine group A <sup>(4)</sup>	1994–2001	1,183	1,183	100	780	780	100	50	50	100
Waxing and winding machine group G	2003–2006	5,806	3,221	55.5	5,806	2,262	39.0	2,237	919	41.1
Waxing and winding machine group H	2003–2006	<u>10,593</u>	<u>7,101</u>	67.0	<u>10,593</u>	<u>5,994</u>	56.6	<u>3,498</u>	<u>2,474</u>	70.7
<b>Total</b>		<u>17,582</u>	<u>11,505</u>	65.4	<u>17,179</u>	<u>9,036</u>	52.6	<u>5,784</u>	<u>3,442</u>	59.5

#### *Notes:*

1. The designed production capacity is based on our management's estimate of the length of products that our workforce at our Guangzhou Production Facilities are capable of producing on an annual basis. The designed production capacity of both Production line 4 and Production line 5 is derived from the assumption that our Guangzhou Production Facilities are in production for 18 hours with two shifts per day and 244 days per year and 94 days for the five months ended 31 May 2017, with the planned number of production workers, planned production mix and the planned production capacity per worker per hour.
2. The utilisation rate is calculated based on the actual output for the relevant year/period divided by the designed production capacity during the corresponding year/period.

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3. The machines from cone winding machine group A from Production line 1, which are primarily used for the manufacturing of our 100% spun polyester sewing threads, also facilitate Production line 4. The total designed production capacity of cone winding machine group A, comprising that for 100% spun polyester sewing threads and that for textured polyester series, was approximately 47.1 million km, 36.9 million km and 14.2 million km during the Track Record Period, respectively. The total actual production volume of cone winding machine group A, comprising that for 100% spun polyester sewing threads and that for textured polyester series, was approximately 42.3 million km, 34.6 million km and 12.3 million km during the Track Record Period, respectively.
4. The machines from waxing and winding machine group A from Production line 2, which are primarily used for the manufacturing of our 100% spun polyester sewing threads, also facilitate Production line 5. The total designed production capacity of waxing and winding machine group A, comprising that for 100% spun polyester sewing threads and that for textured polyester series, was approximately 22.4 million km, 17.1 million km and 5.2 million km during the Track Record Period, respectively. The total actual production volume of waxing and winding machine group A, comprising that for 100% spun polyester sewing threads and that for textured polyester series, was approximately 25.6 million km, 20.2 million km and 6.7 million km during the Track Record Period, respectively.

To alleviate the production capacity constraint and more importantly, to facilitate a more efficient production schedule, we intend to upgrade our existing machinery with a view to enhancing our competitive strength. For further details, please refer to the paragraph headed “Our Business Strategies — Enhancing our production capacity by upgrading our existing machinery” in this section and also the section headed “Future Plans and Use of Proceeds — Reasons for The Share Offer and Use of Proceeds” of this prospectus.

### **Our machinery and equipment**

We purchased our production machinery and equipment from Independent Third Parties in the PRC and from overseas. All the production machinery and equipment are owned by us. We adopt a comprehensive maintenance system for our machinery and equipment, including scheduled downtime for maintenance and repairs and regular inspection with a view to ensuring that our production lines run smoothly and operate at optimal levels. Our production lines are subject to on-going checks. Regular maintenance of our production machinery and equipment is generally done on a monthly basis and the relevant machinery and equipment are scheduled to rotate so as to avoid complete shutdown of our operation.

We ceased carrying out the dyeing process for our sewing threads at our Guangzhou Production Facilities in May 2016. Accordingly, the dyeing machinery was sold to an Independent Third Party at a consideration of RMB3.3 million in June 2016.

Our production lines for 100% spun polyester sewing threads for industrial use operate 18 hours a day with two shifts and for around 244 days per year whereas our production lines for 100% spun polyester sewing threads for domestic use operate nine hours a day with one shift and for around 244 days per year. For the two years ended 31 December 2016 and the five months ended 31 May 2017, our production lines for 100% spun polyester sewing threads for industrial use operated at an average utilisation rate of 106.5%, 107.4% and 113.6%, respectively whereas our production lines for 100% spun polyester sewing threads for domestic use operated at a utilisation rate of 79.1%, 75.4% and 71.2%, respectively.

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### RAW MATERIALS AND SUPPLIERS

#### Raw materials

The major raw materials which are used in the production of our sewing threads are fibre, yarn, dyeing materials and packing materials. For the two years ended 31 December 2016 and the five months ended 31 May 2017, the cost of raw materials accounted for approximately 45.0%, 46.7% and 48.8% of our total cost of sales, respectively.

The table below sets out the breakdown of our total purchase of raw materials during the Track Record Period:

	For the year ended 31 December 2015		2016		For the five months ended 31 May 2017	
	Purchases (HK\$'000)	% of total cost of sales (%)	Purchases (HK\$'000)	% of total cost of sales (%)	Purchases (HK\$'000)	% of total cost of sales (%)
Fibre	8,942	15.8	5,147	11.3	2,419	14.4
Yarn	7,221	12.8	9,051	19.8	2,794	16.6
Dyeing materials	5,291	9.4	3,502	7.7	1,471	8.8
Packing materials	<u>3,979</u>	<u>7.0</u>	<u>3,590</u>	<u>7.9</u>	<u>1,519</u>	<u>9.0</u>
<b>Total</b>	<u>25,433</u>	<u>45.0</u>	<u>21,290</u>	<u>46.7</u>	<u>8,203</u>	<u>48.8</u>

#### *Fibre*

Yarn, which is used for the production of sewing threads, is made from fibre. During the Track Record Period, for the purpose of maintaining the quality of our end products, all fibre was sourced from a state-owned enterprise. The fibre we purchase is directly delivered to our yarn manufacturers for yarn production.

#### *Yarn*

In the event that (i) the price of yarn is lower than the price of fibre plus the charges from engaging our yarn manufacturers to do the fibre processing work; or (ii) for some reasons, yarn is in urgent need, we would purchase yarn directly from our yarn suppliers. For the two years ended 31 December 2016 and the five months ended 31 May 2017, We sourced yarn from four, four and four suppliers, respectively.

#### *Elastic filament*

We procure elastic filament for the production of our elastic filament sewing threads. We sourced elastic filament from one, two and one suppliers for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

### *Dyeing agents*

We procure dyeing agents for the dyeing of our sewing threads. The dyeing agents we purchase are delivered to our dyeing subcontractors for the dyeing process. We sourced dyeing agents from three, three and three suppliers for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

For the two years ended 31 December 2016 and the five months ended 31 May 2017, the average price of fibre was approximately RMB7,775 per tonne, RMB7,344 per tonne and RMB8,247 per tonne, respectively while the average price of yarn was RMB16.8 per kg, RMB15.3 per kg and RMB17.4 per kg, respectively. During the Track Record Period, we had not experienced any material price fluctuations on our major raw materials.

### **Procurement of raw materials**

Our procurement department, consisting of three of our staff members, is responsible for the purchasing of all raw materials. We ensure that turnover days <sup>(Note)</sup> of raw materials at approximately 67 days for our raw materials is maintained. Our procurement department formulates the procurement plan for each of fibre and yarn primarily based on the historical data as well as estimated production needs. Fibre and yarn, being the major raw materials, play an important role in the production of sewing threads. We basically operate a continuous procurement and production cycle. Hence, we generally make advance purchases for fibre and yarn. For fibre, we make monthly purchases from our fibre supplier, a state-owned enterprise at the prices set by such state-owned enterprise. For yarn, we closely monitor the inventory level as well as the market price and make purchases whenever necessary. During the Track Record Period, we were able to source sufficient fibre and yarn and deliver our sewing threads to our customers in accordance with the timeline specified in our customers' purchase orders.

Other than fibre and yarn, our procurement department will make procurements of our other raw materials subject to the inventory level. For other raw materials where our inventory is not available or sufficient, our production department will place an internal purchase request with our procurement department.

Upon receipt of the internal purchase request for a particular raw material from our production department, our procurement department staff will place an order for the other raw materials with the relevant supplier from our list of approved suppliers.

*Note:* Calculated as the average of the beginning and ending balance of raw materials for the year, divided by direct material costs multiplied by the number of days in the period (365 days and 365 days for the two years ended 31 December 2016, respectively, and 151 days for the five months ended 31 May 2017).

### **Measures taken to manage the price risk of raw materials**

We monitor market prices of our raw materials closely. It is our policy that when we anticipate an increase in the prices or a shortage of supply of a particular raw material, we may evaluate our procurement plans and make necessary adjustments to minimise our exposure to the fluctuations in prices or supply. We are generally able to pass the increase in the costs of raw materials to our customers as the market information regarding the prices of raw materials is readily available to our customers.

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During the Track Record Period, our Group had not experienced any significant price fluctuations or shortage of supply of our raw materials.

### **Our suppliers**

Our suppliers mainly supply the following to us: (1) raw materials; and (2) processing work, including yarn production and dyeing. We sourced raw materials and provision of processing work from suppliers based in the PRC. We maintain a list of our approved suppliers, which is reviewed and updated regularly. As at the Latest Practicable Date, we had 44 suppliers on our list. We had maintained business relationships with our five largest suppliers for a period ranging from one to 14 years as at the Latest Practicable Date.

Fibre, our major raw material, is made from crude oil and fibre suppliers in the PRC are state-owned enterprises. We sourced fibre solely from Sinopec, a state-owned enterprise, during the Track Record Period to ensure consistency in the quality. As at the Latest Practicable Date, we had established 14 years of business relationship with Sinopec. We enter into a purchase agreement annually with Sinopec. Prior to expiration of the agreement, both parties may negotiate for a renewal of the agreement. The major terms of our purchase agreement with Sinopec are as follows:

1. Product : Fibre
2. Duration : One year
3. Purchase quantity : The target purchase quantity of fibre on which our Group intends to purchase from Sinopec for the ensuing year
4. Payment terms : Our Group needs to make a monthly prepayment to Sinopec in relation to the fibre to be purchased in the relevant month

According to the CIC Report and to the best knowledge and belief of our Directors, making prepayments to a supplier in order to secure supply of a specific type of raw material is in line with the general industry practice. During the Track Record Period, we had not experienced any shortage or delay in relation to the supply of fibre from Sinopec, a state-owned enterprise, that would materially affect our production. If our Group fails to meet the target purchase quantity, Sinopec may exercise a right to terminate the agreement and our Group may be liable for the loss arising from such failure. During the Track Record Period, our Group had not had any contract with Sinopec terminated and had not been required to indemnify Sinopec for any loss arising from our failure to meet the target purchase quantity.

Should there be any material shortage or delay in the future, we may seek to procure fibre from other similar suppliers and/or purchase yarn from our yarn suppliers. Our Directors believe that other than Sinopec, there are other fibre suppliers as well as yarn suppliers readily available in the market, from which we can procure fibre and/or yarn of similar quality at comparable cost. Nevertheless, our Directors consider that the possibility of a material shortage or delay in relation to the supply of fibre is low.

For other raw materials including yarn, elastic filament and dyeing agents, we had 37 approved suppliers of raw materials on our list as at the Latest Practicable Date. In addition, we engage suppliers to perform the processing work for us, including yarn production and dyeing. As at the Latest Practicable Date, we had seven approved suppliers of processing work on our list. The credit terms



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offered by these suppliers to us generally ranged from 30 to 90 days by telegraphic transfer. For the two years ended 31 December 2016 and the five months ended 31 May 2017, our five largest suppliers had established business relationships with us for ranging from one to 14 years, respectively.

During the Track Record Period, we mainly settled payments with our suppliers in RMB by way of bank transfer.

In selecting our suppliers, our Group adopts strict procedures. We conduct inspections of our suppliers' factories and/or warehouses, review their production capacity, background information and corporate documents. We may place trial orders with these suppliers to ensure that the quality of products or services they provide are to our satisfaction. Before deciding whether to place a particular supplier on our list of approved suppliers, we take into accounts a number of factors including, but not limited to, the scale of operation, product quality, prices offered, reputation in the industry, delivery time and financial position. Should a supplier meet our selection criteria, we may consider placing it on our list of approved suppliers. We review the list annually, by conducting individual evaluation of our approved suppliers in aspects including the stability and schedule of supply, production facilities, performance, standard of services provided, prices offered or fees charged. We may also request samples of raw materials from our suppliers and then conduct sample inspecting and quality testing.

In relation to our procurement of raw materials and our engagement for the provision of processing work, we may require our suppliers to arrange delivery for us. Generally, title and risks are passed to us upon delivery of the raw materials or processed items. Before our raw materials are accepted for our production, staff from our quality control department are responsible for conducting inspection and sample testing on the raw materials based on specific criteria, for example, yarn count, strength, twist, knots and colour fastness. Should we spot any defects of the raw materials or the raw materials fail to comply with our standards, we will return them to our suppliers. During the Track Record Period, we had not experienced any material return of raw materials to our suppliers. Please refer to the paragraph headed "Quality Control — Raw materials quality control" in this section for details of our quality control. During the Track Record Period, we had not experienced any material dispute with our suppliers, nor had we experienced any disruption, shortage or delay in relation to the supply of our raw materials.

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### Our five largest suppliers

The tables below set out a breakdown of our total supplies incurred by our five largest suppliers during the Track Record Period and their background information:

#### For the year ended 31 December 2015

Rank	Supplier	Background of supplier	Type of purchase/service from the supplier	Year of commencement of business relationship with our Group	Credit term	Total supplies (HK\$'000)	Approximate percentage of our total supplies attributable to the supplier (%)
1	Sinopec	A petrochemical manufacturer in the PRC and a state-owned enterprise	Fibre	2003	Full prepayment made before the delivery	8,173	21.4
2	Supplier B	A spinning factory operator in the PRC	Yarn processing	2012	30 days after issue of invoice	8,146	21.3
3	Supplier C	A fibre, yarn and other chemicals retailer and wholesaler in the PRC	Elastic yarn	2010	30 days after issue of invoice	2,664	7.0
4	Supplier D	A steam provider	Steam	2010	30 days after issue of invoice	2,267	5.9
5	Ren Jie Textile	A spinning factory operator in the PRC	Yarn processing	2007	30 days after issue of invoice	1,653	4.3
Five largest suppliers in aggregate						22,903	59.9
All other suppliers						15,346	40.1
Total supplies for the year						<u>38,249</u>	<u>100.0</u>

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### For the year ended 31 December 2016

Rank	Supplier	Background of supplier	Type of purchase/service from the supplier	Year of commencement of business relationship with our Group	Credit term	Total supplies (HK\$'000)	Approximate percentage of our total supplies attributable to the supplier (%)
1	Supplier B	A spinning factory operator in the PRC	Yarn processing	2012	30 days after issue of invoice	6,388	18.1
2	Sinopec	A petrochemical manufacturer in the PRC and a state-owned enterprise	Fibre	2003	Full prepayment made before delivery	5,160	14.7
3	Supplier F	A yarn supplier in the PRC	Yarn	2015	30 days after issue of invoice	4,868	13.8
4	Supplier C	A fibre, yarn and other chemicals retailer and wholesaler in the PRC	Elastic yarn	2010	30 days after issue of invoice	3,123	8.9
5	Jing Rui Textile	A dyeing factory operator	Dyeing works	2016	30 days after issue of invoice	2,199	6.2
Five largest suppliers in aggregate						21,738	61.7
All other suppliers						13,467	38.3
Total supplies for the year						<u>35,205</u>	<u>100.0</u>

### For the five months ended 31 May 2017

Rank	Supplier	Background of supplier	Type of purchase/service from supplier	Year of commencement of business relationship with our Group	Credit term	Total supplies (HK\$'000)	Approximate percentage of our total supplies attributable to the supplier (%)
1	Supplier B	A spinning factory operator in the PRC	Yarn processing	2012	30 days after issue of invoice	2,591	21.4
2	Sinopec	A petrochemical manufacturer in the PRC and a state-owned enterprise	Fibre	2003	Full prepayment made before delivery	2,093	17.3
3	Supplier C	A fibre, yarn and other chemicals retailer and wholesaler in the PRC	Elastic yarn	2010	30 days after issue of invoice	1,287	10.6
4	Supplier F	A yarn supplier in the PRC	Yarn	2015	30 days after issue of invoice	1,090	9.0
5	Jing Rui Textile	A dyeing factory operator	Dyeing works	2016	30 days after issue of invoice	1,025	8.4
Five largest suppliers in aggregate						8,086	66.7
All other suppliers						4,043	33.3
Total supplies for the year						<u>12,129</u>	<u>100.0</u>

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Supplies from our largest supplier accounted for approximately 21.4%, 18.1% and 21.4% of our total supplies for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively. Supplies from our five largest suppliers accounted for approximately 59.9%, 61.7% and 66.7% of our total supplies for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively. None of our Directors, their close associates or any Shareholders who or which, to the knowledge of our Directors, owned more than 5% of the issued Shares of our Company as at the Latest Practicable Date, nor had they any interest in any of the top five suppliers of our Group during the Track Record Period and up to the Latest Practicable Date.

### Arrangements with our yarn suppliers and yarn manufacturers

Although we often request our yarn suppliers or yarn manufacturers to perform the doubling and twisting process for us to allow ease of handling, our quality control personnel ensure that the quality of our sewing threads meets our internal standards and specification, including tearing strength, penetration resistance, thickness, colour fastness, abrasion and dimensional stability, such as elongation and stretch. Such arrangements with our yarn suppliers and yarn manufacturers enable that our internal standard and quality control are maintained. Please refer to the paragraph headed “Quality Control” in this section for further details.

The tables below set out our yarn suppliers with total supplies over HK\$0.1 million for the year/period indicated during the Track Record period and their background information:

#### For the year ended 31 December 2015

Yarn supplier	Background of yarn supplier	Type of purchase/service from the yarn supplier	Year of commencement of business relationship with our Group	Credit term	Total supplies (HK\$'000)	Approximate percentage of our total supplies attributable to the yarn supplier (%)
Supplier C	A fibre, yarn and other chemicals retailer and wholesaler in the PRC	Elastic yarn	2010	30 days after issue of invoice	2,664	7.0
Supplier F	A yarn supplier in the PRC	Yarn	2015	30 days after issue of invoice	1,609	4.2
Supplier H	A textile yarn and thread supplier in the PRC	Yarn	2013	30 days after issue of invoice	1,350	3.5
Supplier I	A yarn and sewing threads supplier in the PRC	Yarn	2013	30 days after issue of invoice	236	0.6
Supplier J	A yarn, sewing threads and accessories wholesaler, with a branch company in Shanghai	Yarn	2013	Cash on delivery	230	0.6

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### For the year ended 31 December 2016

Yarn supplier	Background of yarn supplier	Type of purchase/service from the yarn supplier	Year of commencement of business relationship with our Group	Credit term	Total supplies (HK\$'000)	Approximate percentage of our total supplies attributable to the yarn supplier (%)
Supplier F	A yarn supplier in the PRC	Yarn	2015	30 days after issue of invoice	4,868	13.8
Supplier C	A fibre, yarn and other chemicals retailer and wholesaler in the PRC	Elastic yarn	2010	30 days after issue of invoice	3,123	8.9
Supplier H	A textile yarn and thread supplier in the PRC	Yarn	2013	30 days after issue of invoice	155	0.4
Supplier I	A yarn and sewing threads supplier in the PRC	Yarn	2013	30 days after issue of invoice	1,292	3.7
Supplier J	A yarn, sewing threads and accessories wholesaler, with a branch company in Shanghai	Yarn	2013	Cash on delivery	161	0.5

### For the five months ended 31 May 2017

Yarn supplier	Background of yarn supplier	Type of purchase/service from the yarn supplier	Year of commencement of business relationship with our Group	Credit term	Total supplies (HK\$'000)	Approximate percentage of our total supplies attributable to the yarn supplier (%)
Supplier C	A fibre, yarn and other chemicals retailer and wholesaler in the PRC	Elastic yarn	2010	30 days after issue of invoice	1,287	10.6
Supplier F	A yarn supplier in the PRC	Yarn	2015	30 days after issue of invoice	1,090	9.0

**Background of our yarn suppliers**

Supplier F is a limited company incorporated in June 2005 in the PRC, with a registered capital of approximately US\$35.9 million. Supplier F, with its registered address situated at Ruichang, Jiangxi Province (江西省瑞昌市), currently has approximately 1,000 employees. Supplier F's scope of business includes manufacturing plastics, clothing, blow molded packaging, textiles, twisting, spinning and weaving. Our Group's business relationship with Supplier F commenced in 2015, when they began to supply yarn to our Group. Supplier F also exports their products to the overseas market, and their major customers include companies operating in the textile industry. The annual revenue for the two years ended 31 December 2016 was approximately RMB451.2 million and RMB180.4 million, respectively. The business transaction amount of Supplier F with our Group was approximately HK\$1.6 million, HK\$4.9 million and HK\$1.1 million for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

Supplier C is a limited company incorporated in April 2010 in the PRC, with a registered capital of RMB0.1 million and registered address situated at Ke Qiao District, Shaoxing (紹興市柯橋區). Supplier C has approximately 20 employees, and its scope of business includes wholesaling and retailing raw materials, textiles, hardware products and office supplies. Our Group's business relationship with Supplier C commenced in 2010, when they began to supply elastic yarn to our Group. The customers of Supplier C include garment manufacturers. The business transaction amount of Supplier C with our Group was approximately HK\$2.7 million, HK\$3.1 million and HK\$1.3 million for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

Supplier H is a limited company incorporated in November 2005 in the PRC, with a registered capital of RMB5.8 million. Supplier H, with its registered address situated at Yang Lin Town, Hanchuan (漢川市楊林鎮), had approximately 190 and 185 employees for the two years ended 31 December 2016, respectively. Their scope of business includes, manufacturing and sale of textiles, yarns and threads. Our Group's business relationship with Supplier H commenced in 2013, when they began to supply yarn to our Group. Supplier H is also involved in other businesses, such as the sale of mechanical components for spinning machinery. They sell their products in the PRC market and the overseas market. The annual revenue for the two years ended 31 December 2016 was approximately RMB44.4 million and RMB48.3 million, respectively. The customers of Supplier H include garment manufacturers. The business transaction amount of Supplier H with our Group was approximately HK\$1.4 million, HK\$0.2 million and HK\$18,000 for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

Supplier I is a limited company incorporated in August 2011 in the PRC, with a registered capital of RMB10 million. Supplier I, with its registered address situated at Tonghaikou Town, Xiantao (仙桃市通海口鎮), had approximately 130 and 50 employees for the two years ended 31 December 2016, respectively. Supplier I scope of business includes, manufacturing and selling of textile, threads and weaving. Our Group's business relationship with Supplier I commenced in 2013, when they began to provide polyester yarn to our Group. Supplier I sells its products in the PRC market and the overseas market. Their annual revenue for the two years ended 31 December 2016 was approximately RMB13.6 million and RMB11.0 million, respectively. The business transaction amount of Supplier I with the Group was approximately HK\$0.2 million, HK\$1.3 million and HK\$76,000 for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

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Supplier J is a limited company incorporated in August 2003, with a registered capital of US\$30.3 million, and its registered address at Jiashan, Zhejiang province. Our business relationship with Supplier J commenced in 2013, when we began to source yarn from Supplier J. Supplier J mainly engages in the wholesale of yarn, sewing threads, fabrics and accessories, and sells these products to customers in the PRC and overseas, including Europe, the Middle East, and South East Asia. The business transaction amount of Supplier J with our Group was approximately HK\$0.2 million, HK\$0.2 million and HK\$93,000 for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

### SUBCONTRACTING ARRANGEMENTS

#### Subcontracting of yarn production

Since our Group does not have the production facilities to produce yarn, the yarn production process is subcontracted to yarn manufacturers from our list of approved suppliers, all of which are Independent Third Parties. As at the Latest Practicable Date, we had two approved yarn manufacturers on our list.

Our typical subcontracting agreement in relation to yarn production includes the following key terms:

- the subcontracting fees charged by the yarn manufacturer;
- the type, quantity and specification of yarns; and
- the delivery time

We generally provide fibre for our yarn manufacturers for the processing work. The specifications of yarns we provide for our yarn manufacturers, including strength, elongation and twists, will serve as a benchmark for the quality inspection to be performed upon delivery of the yarns to our Guangzhou Production Facilities. Where necessary, staff from our quality control team will attend the production facilities of our yarn manufacturers to provide guidance in the course of the production process, conduct on-site inspection, sample testing and quality checks.

Upon completion of the yarn production, our yarn manufacturers will deliver the yarn to our Guangzhou Production Facilities. Our quality control staff will inspect the quality of the yarn upon delivery in accordance with the agreed technical requirements before the subsequent processing stages commence. Should we spot any defects in the yarn or the yarn fail to comply with the agreed requirements, we will return the defective product to our yarn manufacturers.

For the two years ended 31 December 2016 and the five months ended 31 May 2017, the subcontracting charges paid to our yarn manufacturers amounted to HK\$9.6 million, HK\$6.4 million and HK\$2.6 million, respectively, representing approximately 16.9%, 14.0% and 15.7% of our total cost of sales for the same periods, respectively. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material claims or complaints against our yarn manufacturers in respect of the quality of the yarn produced by them.

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Our Group does not enter into any long-term contracts with our yarn manufacturers and we mostly place orders with them on an order-by-order basis. Despite this, we manage to maintain good business relationships with our yarn manufacturers. During the Track Record Period, we had not experienced any material disputes with our yarn manufacturers, nor had we experienced any disruption or delay in relation to the production of yarn. Should there be any material shortage or delay in the future, we may seek to procure yarn processing services from other similar yarn manufacturers. Our Directors believe that there are other yarn manufacturers readily available in the market, from which we can procure yarn processing services of similar quality at comparable cost.

The table below sets out our yarn manufacturers during the Track Record Period and their background information:

### For the year ended 31 December 2015

Yarn manufacturer	Background of yarn manufacturer	Type of purchase/service from the yarn manufacturer	Year of commencement of business relationship with our Group	Credit term	Total supplies (HK\$'000)	Approximate percentage of our total supplies attributable to the yarn manufacturer (%)
Supplier B	A spinning factory operator in the PRC	Yarn processing	2012	30 days after issue of invoice	8,146	21.3
Ren Jie Textile	A spinning factory operator in the PRC	Yarn processing	2007	30 days after issue of invoice	1,653	4.3

### For the year ended 31 December 2016

Yarn manufacturer	Background of yarn manufacturer	Type of purchase/service from the yarn manufacturer	Year of commencement of business relationship with our Group	Credit term	Total supplies (HK\$'000)	Approximate percentage of our total supplies attributable to the yarn manufacturer (%)
Supplier B	A spinning factory operator in the PRC	Yarn processing	2012	30 days after issue of invoice	6,388	18.1
Ren Jie Textile	A spinning factory operator in the PRC	Yarn processing	2007	30 days after issue of invoice	350	1.0

### For the five months ended 31 May 2017

Yarn manufacturer	Background of yarn manufacturer	Type of purchase/service from the yarn manufacturer	Year of commencement of business relationship with our Group	Credit term	Total supplies (HK\$'000)	Approximate percentage of our total supplies attributable to the yarn manufacturer (%)
Supplier B	A spinning factory operator in the PRC	Yarn processing	2012	30 days after issue of invoice	2,591	21.4



### **Background of our yarn manufacturers**

Supplier B is a limited company incorporated in January 2003 in the PRC, with a registered capital of RMB3.3 million. Supplier B, with its registered address situated at Zunyi, Guizhou Province (貴州省遵義), currently has approximately 400 employees. Supplier B's scope of business includes processing works for textile products and selling of packaging materials, textile raw materials and dyeing agents. Our Group's business relationship with Supplier B commenced in 2012, when they began to provide yarn manufacturing to our Group. They sell their products in the PRC market, principally to Guangzhou and Ningbo. Their annual revenue was approximately RMB209.9 million and RMB185.3 million for the two years ended 31 December 2016, respectively. The business transaction amount of Supplier B with our Group was approximately HK\$8.1 million, HK\$6.4 million and HK\$2.6 million the two years ended 31 December 2016 and for the five months ended 31 May 2017.

Further, Supplier B was our largest yarn manufacturer during the two years ended 31 December 2016. In the event that Supplier B is unable to provide yarn manufacturing services to our Group, our Group will be able to source yarn manufacturing from alternative yarn manufacturers at comparable cost. We had not experienced any material shortage or delay with Supplier B regarding their yarn processing service during the Track Record Period and up to the Latest Practicable Date.

上海仁杰紡織品有限公司 (Shanghai Ren Jie Textile Limited) ("**Ren Jie Textile**") is a limited company incorporated in January 2003 in the PRC, with a registered capital of RMB1.8 million. Ren Jie Textile, with its registered address situated at Zengming Town, Shanghai (上海市崇明縣), has approximately 60 to 90 employees. Ren Jie Textile's scope of business includes manufacturing and selling of textile and rubber and plastic products. Our Group's business relationship with Ren Jie Textile commenced in 2007, when they began to provide yarn processing service to our Group. They sell their products in the PRC market to garment manufacturers. Their annual revenue for the two years ended 31 December 2016 was approximately RMB2.6 million and RMB2.9 million, respectively. The business transaction amount of Ren Jie Textile with our Group was approximately HK\$1.7 million, HK\$0.4 million and nil for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

### **Subcontracting of dyeing process**

Prior to May 2016, the dyeing process for our sewing threads was either carried out by us at our Guangzhou Production Facilities or subcontracted to our dyeing suppliers, all of which were Independent Third Parties. However, in order to comply with the applicable recommendation and measures issued by the PRC government, we shut down our dyeing facilities located at our Guangzhou Production Facilities in May 2016. The relevant details are set out below.

### ***Compliance with the Recommendation and the Measures on PCWP***

On 28 March 2008, the People's Government of Guangzhou Municipality issued the Recommendation of the Guangzhou on Suppressing the Secondary Industry Enterprises and Developing the Tertiary Industry Enterprises 《廣州市人民政府關於推進市區產業“退二進三”工作的意見》 (the "**Recommendation**") requesting the enterprises located within the area of Guangzhou Expressway (環城高速公路) (the "**Expressway Area**") that may cause an adverse environmental impact to relocate by the end of 2010 or by the end of 2015, for the purpose of promoting environmental protection. As our Guangzhou Production Facilities, including our then dyeing facilities, were situated within the

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Expressway Area, they were subject to the aforesaid relocation. On 11 May 2016, the People's Government of Guangzhou Municipality published the Measures on the Prevention and Control of Water Pollution in Guangzhou 《廣州市水污染防治行動計劃實施方案》(穗府[2016]9號) (the “**Measures on PCWP**”) to push forward the relocation of enterprises within the Expressway Area pursuant to the Recommendation. Accordingly, our Guangzhou Production Facilities, including our then dyeing facilities were required to be relocated by the end of 2015.

For the purpose of relocating our Guangzhou Production Facilities, we established Foshan Zhihua in 2014 and managed to find a suitable piece of land (the “**Land**”) located in Shunde District, Xing Tan Town (順德區杏壇鎮) later in the same year. However, as the then premises on the Land were not fit for our intended factory purposes, the relevant landlord agreed to construct a building to cater for our operations. Accordingly, an agreement dated 27 May 2014 was entered into between Foshan Zhihua and the relevant landlord for a period of 10 years. The construction work of the building was completed in late March 2015. Yet, to put the production and dyeing processes at the building on the Land into operation and to ensure our compliance with all applicable laws and regulations, our Group had to arrange connection of utilities such as water and electricity, set up a drainage system including drain pipes and tanks, and install the machinery and equipment before the relocation of our Guangzhou Production Facilities.

Initially, our Group aimed to commence the dyeing process on the Land as soon as the utilities connection and the installation of the drainage system and the relevant machinery and equipment were completed. However, realising that more time was required for such preparation works, we submitted an application to the relevant government authority in November 2015 requesting an extension for the relocation of our dyeing facilities at our Guangzhou Production Facilities. In view of such an application, the Liwan District Environmental Protection Bureau (荔灣區環保局) (the “**LDEP Bureau**”) conducted an on-site inspection of our Guangzhou Production Facilities in May 2016. An approval was subsequently granted to our Group by the LDEP Bureau in which we were required to complete our relocation work with respect to our dyeing process by the end of June 2016 so as to comply with the Recommendation and the Measures on PCWP. Meanwhile, we had been carrying on the demolition work of our then dyeing facilities, including the steam boiler and the drain pipes, in our Guangzhou Production Facilities. The cessation of our dyeing process was done on a gradual basis and the entire operation of our dyeing process ceased in May 2016. Our Group was confirmed by the LDEP Bureau that the dyeing process of our Guangzhou Production Facilities was no longer in operation and that the steam boiler had been demolished. Our Group recorded a loss of approximately HK\$1.9 million for the year ended 31 December 2016 as a result of the disposal of the fixed assets incidental to the demolition of the steam boiler and the cessation of our dyeing facilities. For further details, please refer to the section headed “Financial Information — Results of Our Operations — Year ended 31 December 2016 compared to year ended 31 December 2015 — Other gains/losses, net — Gain/loss on disposal of fixed assets” of this prospectus.

Our PRC Legal Adviser conducted an interview with the LDEP Bureau, during which the representative of the LDEP Bureau expressed its view to our PRC Legal Adviser that the operation of our dyeing process at our Guangzhou Production Facilities had ceased and the steam boiler had been demolished and that our Guangzhou Production Facilities had all along been in compliance with the regulatory requirements of the LDEP Bureau, save for the non-recurring non-compliance incident regarding the level of air pollutants emitted by the steam boiler located at our Guangzhou Production Facilities in June 2015, the details of which was set out in the paragraph headed “Regulatory Non-

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compliance” in this section. Our PRC Legal Adviser was further informed by the representative of the LDEP Bureau that in view of (i) the cessation of our dyeing process at our Guangzhou Production Facilities; (ii) the demolition of the steam boiler; and (iii) the fact that our operation process no longer involved any emission of air pollutants or sewage, our Guangzhou Production Facilities had acted in compliance with the Recommendation and the Measures on PCWP and accordingly, we could continue our operation and there was no need to relocate our production facilities. As advised by our PRC Legal Adviser, the LDEP Bureau has the authority to confirm the aforesaid matters.

### *Subcontracting the dyeing process and disposing of Foshan Zhihua*

We established Foshan Zhihua as a contingency plan for our dyeing operations. Foshan Zhihua was intended to engage in the dyeing process to minimise the impact caused by the Recommendation and the Measures on PCWP to our business. In the course of the demolition work in respect of our then dyeing facilities as mentioned above, we gradually subcontracted the dyeing process for our sewing threads to our dyeing suppliers, who were Independent Third Parties. While we were outsourcing the dyeing process to external service providers, we noticed that the costs incurred in subcontracting the dyeing process were lower than those incurred in performing the dyeing process using our own dyeing facilities. Please refer to the section headed “Financial Information — Results of Our Operations — Year ended 31 December 2016 compared to year ended 31 December 2015 — Cost of sales” of this prospectus for details regarding the comparison of the subcontracting fees charged on us by our dyeing suppliers and the production cost incurred by us. As mentioned above, our PRC Legal Adviser confirmed with the LDEP Bureau that the relocation of our Guangzhou Production Facilities was no longer necessary. As such, we decided to keep our Guangzhou Production Facilities at the existing location. In addition, considering that subcontracting the dyeing process to external dyeing suppliers was more cost-efficient than performing the dyeing process on our own, our Group decided to continue the subcontracting and hence, disposed of Foshan Zhihua on 20 June 2016 with reference to the registered capital of Foshan Zhihua. Since its establishment and up to its disposal, Foshan Zhihua had no business operations. For details of disposal of Foshan Zhihua, please refer to the section headed “History, Reorganisation and Corporate Structure — Foshan Zhihua” of this prospectus.

Foshan Zhihua became one of our dyeing suppliers currently known as Foshan Jing Xin Threads Industry Limited (佛山市景信線業有限公司) upon its disposal. Please refer to the paragraph headed “Background of our dyeing suppliers” in this section for details of the business relationship between our Group and Foshan Zhihua. Our Directors, to the best of their knowledge, information and belief having made all reasonable enquiries, confirm that the acquirer of Foshan Zhihua and our then dyeing facilities do not have any relationship with all other dyeing suppliers of our Group. Our Directors further confirm that the transactions of our Group with Foshan Zhihua were conducted on an arm’s length basis and that there have been no overlapping management personnel between our Group and Foshan Zhihua.

According to the CIC Report, it is an industry norm for sewing thread manufacturers to outsource the dyeing process to external dyeing suppliers. Given that more restrictions are posed by applicable environmental laws and regulations, the cost of operating dyeing facilities in compliance with these regulatory requirements is expected to be getting higher. To ensure a cost-efficient manufacturing process, outsourcing the dyeing process is a prevalent practice. Our then dyeing facilities were set up with the aim of solely catering for the dyeing process of our own sewing threads. Our Group has been focusing on the manufacturing of sewing threads and has no intention to either engage in dyeing other products or provide dyeing services for external parties. As such, maintaining our then dyeing facilities

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for our operation would not allow us to benefit from economies of scale. By contrast, our external dyeing suppliers such as Jing Rui Textile and Supplier L may dye their own products as well as the products of their customers. As such, compared to the Group they may be in a better position to benefit from economies of scale. Hence, it would be a commercially viable move to subcontract the dyeing process to external dyeing suppliers. Since May 2016, the dyeing process for all our sewing threads has been subcontracted to the dyeing suppliers from our list of approved suppliers, which are located in Foshan, Shenzhen and Hanchuan. All of our dyeing suppliers are Independent Third Parties. As at the Latest Practicable Date, we had five approved dyeing suppliers on our list.

Our typical subcontracting agreement in relation to the dyeing of our sewing threads includes the following key terms:

- the subcontracting fees charged by the dyeing suppliers;
- the quality of dyeing agents required for our sewing threads; and
- the quantity of sewing threads required to be dyed

We usually provide dyeing agents for our dyeing suppliers for the processing work. In other cases, our dyeing suppliers will be responsible for procuring dyeing agents which satisfy our requirements. The specifications of the dyed sewing threads we provide for our dyeing suppliers will serve as a benchmark for the quality inspection to be performed upon delivery of the dyed sewing threads to our Guangzhou Production Facilities. Where necessary, staff from our quality control team will attend the production facilities of our dyeing suppliers we engage to provide guidance in the course of the dyeing process as well as conduct on-site inspection, sample testing and quality checks. In other cases, our dyeing suppliers will send samples of the dyed sewing threads to us for colour matching and confirmation before delivering the whole batch to us.

Upon completion of the dyeing process, our dyeing suppliers will deliver the dyed sewing threads to our Guangzhou Production Facilities. Our quality control staff will inspect the quality of the dyed sewing threads upon delivery in accordance with the agreed technical requirements before the commencement of subsequent processing stages. Should we spot any defects in the dyed sewing threads or the dyed sewing threads fail to comply with the agreed requirements, we will return the defective product to our dyeing suppliers.

For the two years ended 31 December 2016 and the five months ended 31 May 2017, the subcontracting charges paid to our dyeing suppliers amounted to HK\$91,000, HK\$3.9 million and HK\$1.9 million, respectively, representing approximately 0.2%, 8.5% and 11.2% of our total cost of sales for the same periods, respectively. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material claims or complaints against our dyeing suppliers in respect of the quality of the dyed sewing threads.

Our Group does not enter into any long-term contracts with our dyeing suppliers and we generally place orders with them on an order-by-order basis. Despite this, we manage to maintain good business relationships with our dyeing suppliers. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material disputes with our dyeing suppliers, nor had we experienced any disruption or delay in relation to the dyeing of our sewing threads. Should there be any material

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shortage or delay in the future, we may seek to procure the dyeing process from other similar dyeing suppliers. Our Directors believe that there are other dyeing suppliers readily available in the market, from which we can procure dyeing process of similar quality at comparable cost.

### Arrangements with our dyeing suppliers

For the dyeing of our sewing threads, we purchase dyeing agents on our own and provide them to our approved dyeing suppliers to perform dyeing for our sewing threads. Alternatively, our dyeing suppliers may purchase dyeing agents on behalf of us according to our requirements. We offer a selection of approximately 1,200 colour samples in our colour catalogue to our customers. Notwithstanding our wide range of colour choices, there are cases when our customers request a colour for the sewing threads which is not contained in our colour catalogue. In this case, we will tailor a colour to our customers that meets their specific requirements. We would perform laboratory tests, through which our dyeing technician, with the help of our computer software, machines and equipment, conduct a colour analysis for the fabric sample and then work out the chemical dye formula based on the results of the analysis. To ensure that the blended colour matches the specifications of our customers, adjustments would then be made in the colour blending process until the ultimate colour is to the satisfaction of our customers. Whether we purchase dyeing agents or our dyeing suppliers purchase them on our behalf, we perform this custom-made colour blending service for our customers where necessary. We provide our dyeing suppliers with the chemical dye formulae we work out based on our requirements to ensure that our dyed sewing threads are in compliance with our standard.

With our experience in the sewing threads industry, we are able to provide technical advice and support to assist our customers in product development as well as preparing trial size samples for testing prior to full scale production. Our Group ensures that the standard of quality regarding dyeing, in particular, the colour of our dyeing agents, is strictly maintained so as to meet the demand of our customers.

The table below sets out our dyeing suppliers during the Track Record Period and their background information:

#### For the year ended 31 December 2015

Dyeing supplier	Background of dyeing supplier	Type of purchase/service from the dyeing supplier	Year of commencement of business relationship with our Group	Credit term	Total supplies (HK\$'000)	Approximate percentage of our total supplies attributable to the dyeing supplier (%)
Supplier L	A dyeing supplier and sewing threads processor in the PRC	Dyeing works	2015	30 days after issue of invoice	59	0.2
Supplier N	A dyeing supplier and elastic filament sewing threads, weft yarn and textured polyester sewing threads manufacturer in the PRC	Dyeing works	2015	30 days after issue of invoice	32	0.1

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### For the year ended 31 December 2016

Dyeing supplier	Background of dyeing supplier	Type of purchase/service from the dyeing supplier	Year of commencement of business relationship with our Group	Credit term	Total supplies (HK\$'000)	Approximate percentage of our total supplies attributable to the dyeing supplier (%)
Jing Rui Textile	A dyeing factory operator	Dyeing works	2016	30 days after issue of invoice	2,199	6.2
Supplier K	A dyeing supplier and clothing and accessories manufacturer in the PRC	Dyeing works	2016	30 days after issue of invoice	530	1.5
Supplier L	A dyeing supplier and sewing threads processor in the PRC	Dyeing works	2015	30 days after issue of invoice	487	1.4
Supplier N	A dyeing supplier and elastic filament sewing threads, weft yarn and textured polyester sewing threads manufacturer in the PRC	Dyeing works	2015	30 days after issue of invoice	618	1.8
Foshan Zhihua	A dyeing and sewing threads supplier in the PRC	Dyeing works	2016	30 days after issue of invoice	199	0.6

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### For the five months ended 31 May 2017

Dyeing supplier	Background of dyeing supplier	Type of purchase/service from the dyeing supplier	Year of commencement of business relationship with our Group	Credit term	Total supplies (HK\$'000)	Approximate percentage of our total supplies attributable to the dyeing supplier (%)
Jing Rui Textile	A dyeing factory operator	Dyeing works	2016	30 days after issue of invoice	1,025	8.4
Supplier K	A dyeing supplier and clothing and accessories manufacturer in the PRC	Dyeing works	2016	30 days after issue of invoice	49	0.4
Supplier L	A dyeing supplier and sewing threads processor in the PRC	Dyeing works	2015	30 days after issue of invoice	86	0.7
Supplier N	A dyeing supplier and elastic filament sewing threads, weft yarn and textured polyester sewing threads manufacturer in the PRC	Dyeing works	2015	30 days after issue of invoice	122	1.0
Foshan Zhihua	A dyeing and sewing threads supplier in the PRC	Dyeing works	2016	30 days after issue of invoice	465	3.8

### Background of our dyeing suppliers

The dyeing process of all our sewing threads has been subcontracted to our approved suppliers set out below, all of which are Independent Third Parties:

佛山市順德區景瑞紡織實業有限公司 (Foshan Shunde Jing Rui Textile Industrial Limited) (“**Jing Rui Textile**”) is a limited company incorporated in December 2014 in the PRC, with a registered capital of RMB0.3 million. Jing Rui Textile, with its registered office situated at Shunde District, Foshan (佛山市順德區), has approximately 52 employees. The scope of business of Jing Rui Textile includes manufacturing and selling of dyed yarn, knitted fabric, apparel and accessories. Our Group’s business relationship with Jing Rui Textile commenced in 2016 when Jing Rui Textile began to provide dyeing works to our Group. During the Track Record Period, we had subcontracted approximately nil, 732,000 kg and 285,000 kg of sewing threads to Jing Rui Textile for dyeing. A credit period of 30 days upon the issue of an invoice is granted to us. Jing Rui Textile sells its products and provides its services in the PRC market to garment manufacturers. The annual revenue of Jing Rui Textile was approximately RMB2.4 million and RMB5 million for the two years ended 31 December 2016, respectively. The business transaction amount of Jing Rui Textile with our Group for the year ended 31 December 2016 and the five months ended 31 May 2017 was approximately HK\$2.2 million and HK\$1.0 million, respectively.

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Supplier K is a limited company incorporated in July 2012 in the PRC, with a registered capital of RMB0.3 million. Supplier K, with its registered office situated at Shunde District, Foshan (佛山市順德區). The scope of business of Supplier K includes manufacturing and selling of dyed yarn, clothing and accessories. Our Group's business relationship with Supplier K commenced in 2016 when Supplier K began to provide dyeing works to our Group. During the Track Record Period, we had subcontracted approximately nil, 76,000 kg and 14,000 kg of sewing threads, respectively to Supplier K for dyeing. A credit period of 30 days after issue of invoice is granted to us. The annual revenue of Supplier K for the two years ended 31 December 2016 was approximately RMB5.1 million and RMB5.1 million, respectively. The business transaction amount of Supplier K with our Group for the year ended 31 December 2016 and the five months ended 31 May 2017, was approximately HK\$0.5 million and HK\$49,000, respectively.

Supplier L is a limited company incorporated in January 2010 in the PRC, with a registered capital of RMB20 million. Supplier L, with its registered office situated at Hankou, Hubei Province (湖北省漢口市), had approximately 80 and 60 employees for the two years ended 31 December 2016, respectively. The scope of business of Supplier L includes dyeing works and processing and selling of sewing threads. Our Group's business relationship with Supplier L commenced in 2015 when Supplier L began to provide dyeing works to our Group. During the Track Record Period, we had subcontracted approximately 14,000 kg, 74,000 kg and 4,700 kg of sewing threads, respectively to Supplier L for dyeing. A credit period of 30 days after issue of invoice is granted to us. Supplier L sells its products and provides its services to customers in the trade industry. The annual revenue of Supplier L for the two years ended 31 December 2016 was approximately RMB28.7 million and RMB20.2 million, respectively. The business transaction amount of Supplier L with our Group for the two years ended 31 December 2016 and the five months ended 31 May 2017 was approximately HK\$59,000, HK\$0.5 million and HK\$86,000, respectively.

Supplier N is a limited company incorporated in November 1994 in the PRC, with a registered capital of RMB1 million. Supplier N, with its registered address situated at Shenzhen, Guangdong Province, (廣東省深圳市), has approximately 30 employees. The scope of business of Supplier N includes manufacturing elastic filament sewing threads, weft yarn and textured polyester sewing threads. Our Group's business relationship with Supplier N commenced in 2015, when Supplier N began to provide dyeing works to our Group. During the Track Record Period, we had subcontracted approximately 16,000 kg, 64,000 kg and 12,000 kg of sewing threads, respectively to Supplier N for dyeing. A credit period of 30 days after issue of invoice is granted to us. The customers of Supplier N include garment manufacturers and knitting factories. The annual revenue of Supplier N for the two years ended 31 December 2016 was approximately RMB9.2 million and RMB10.3 million, respectively. The business transaction amount of Supplier N with our Group for the year ended 31 December 2016 and the five months ended 31 May 2017 was approximately HK\$32,000, HK\$0.6 million and HK\$0.1 million, respectively.

Foshan Jing Xin Threads Industry Limited (佛山市景信線業有限公司) (formerly known as Foshan Zhihua) is a limited company incorporated in January 2014 in the PRC, with a registered capital of RMB0.5 million. Foshan Zhihua, with its registered address situated at Shunde District of Foshan, Guangdong Province (廣東省佛山市順德區), has approximately 40 to 50 employees. Foshan Zhihua was our subsidiary prior to its disposal. The acquirer of Foshan Zhihua, Zhou Yiyang (周一陽), is an Independent Third Party and does not have any relationship with all other dyeing suppliers of our Group. The scope of business of Foshan Zhihua includes manufacturing, processing and selling sewing



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threads and garments. Our Group's business relationship with Foshan Zhihua upon its disposal, when Foshan Zhihua began to provide dyeing works to our Group. During the Track Record Period, we had subcontracted approximately nil, 47,000 kg and 144,000 kg of sewing threads, respectively to Foshan Zhihua for dyeing. A credit period of 30 days after issue of invoice is granted to us. Foshan Zhihua sells its products and provides its services in the PRC market to garment manufacturers. The customers of Foshan Zhihua include knitting factories. The annual revenue of Foshan Zhihua for the year ended 31 December 2016 was approximately RMB1.4 million. The business transaction amount of Foshan Zhihua with our Group for the two years ended 31 December 2016 and the five months ended 31 May 2017 was approximately nil, HK\$0.2 million and HK\$0.5 million, respectively.

During the Track Record Period, two of our dyeing suppliers had involved non-compliance in relation to environmental issues under the relevant PRC environmental laws and regulations. The aggregate percentage of the supplies attributable to these two dyeing suppliers was 0.2%, 2.9% and 1.1% of our total supplies for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively, which was an insignificant portion. The amount of supplies we purchased from these two dyeing suppliers showed a declining trend from 2.9% of our total supplies for the year ended 31 December 2016 to 1.1% of our total supplies for the five months ended 31 May 2017. Based on our observation during our regular visits, we did not note that such non-compliance matters of these two dyeing suppliers had led to any material problems, including interruptions in their business operations, or affected the supply of their dyeing services to us. Yet owing to our emphasis on the importance of our product quality, we tended to reduce the amount of supplies purchased from these two dyeing suppliers. To prevent such non-compliance from recurring, we played a cautious role by closely monitoring these two dyeing suppliers.

In light of this, in order to ensure that the dyeing processes performed by our dyeing suppliers were in compliance with the relevant PRC environmental laws and regulations and that the dyeing agents used for our products conformed to the industry environmental standard of "OEKO-TEX® STANDARD 100", we paid regular visits to our dyeing suppliers during the Track Record Period with a view to monitoring their operations and ensuring that their operations were not suspended as a result of any breach of the relevant PRC environmental laws and regulations. We reminded these dyeing suppliers of the importance of complying with the relevant PRC environmental laws and regulations. Should we become aware that suspension of business of any of our dyeing suppliers arises from breach of the relevant PRC environmental laws and regulations and such breach would materially and adversely affect their operations, and hence their provision of dyeing services to us, we would engage other dyeing suppliers to perform the relevant process for our products. Our Directors are of the view that there would not involve any difficulty in locating other dyeing suppliers. During the Track Record Period, our Group had not been affected by any material interruption in the business operations of our dyeing suppliers arising from breach of the relevant PRC environmental laws and regulations. To the best of our Directors' knowledge after having made reasonable enquiries, our dyeing suppliers are not subject to the relocation requirements under the Recommendation of the Guangzhou on Suppressing the Secondary Industry Enterprises and Developing the Tertiary Industry Enterprises 《廣州市人民政府關於推進市區產業“退二進三”工作的意見》, details of which are disclosed in the paragraph headed "Compliance with the Recommendation and the Measures on PCWP" in this section.

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### CUSTOMERS

Our customers are primarily garment manufacturers and wholesalers. Over the course of our business operations, our Group has maintained good relationship with our customers. As at the Latest Practicable Date, we had maintained business relationships with our five largest customers for a period ranging from one to 18 years. During the Track Record Period, we exported our products to our overseas customers, which were from countries including UAE, Mauritius, Australia, Germany and the U.K.. We also sold our products in Hong Kong and the PRC. For the two years ended 31 December 2016 and the five months ended 31 May 2017, our PRC sales accounted for approximately 58.5%, 53.3% and 49.8% of our total revenue, respectively, our Hong Kong sales accounted for approximately 6.5%, 8.2% and 11.4% of our total revenue, respectively and our overseas sales accounted for approximately 35.0%, 38.5% and 38.8% of our total revenue, respectively.

Our overseas sales consist of sales of our sewing threads without a brand and sewing threads with the brand **SMIT**. and our overseas customers are mainly wholesalers. Our Hong Kong sales and PRC sales include mainly sales of sewing threads without a brand and our Hong Kong customers and PRC customers are mainly garment manufacturers.

#### Our customers

During the Track Record Period, we sold our products directly to our customers and we had not appointed any distributors or agents to conduct sales on our behalf.

The tables below set out the number and movement of our customers by customer category and by region during the Track Record Period:

#### *By customer category*

	<b>Garment manufacturers</b>	<b>Wholesalers</b>	<b>Total</b>
As at 1 January 2015	830	10	840
Addition during the year	132	1	133
Reduction during the year <sup>(1)</sup>	194	—	194
As at 31 December 2015	768	11	779
As at 1 January 2016	768	11	779
Addition during the year	162	—	162
Reduction during the year <sup>(1)</sup>	200	—	200
As at 31 December 2016	730	11	741
As at 1 January 2017	730	11	741
Addition during the five months ended 31 May 2017	47	1	48
Reduction during the five months ended 31 May 2017 <sup>(1)</sup>	210	7	217
As at 31 May 2017	567	5	572

#### *Note:*

- Reduction during the year and reduction during the five months ended 31 May 2017 refer to the number of inactive customers, who did not place orders with us during the corresponding year/period.

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As at the Latest Practicable Date, our Group had 619 garment manufacturers and seven wholesalers as our customers.

*By region*

	<b>PRC customers</b>	<b>Hong Kong customers</b>	<b>Overseas customers</b>	<b>Total</b>
As at 1 January 2015	728	102	10	840
Addition during the year	106	26	1	133
Reduction during the year <sup>(1)</sup>	146	48	—	194
As at 31 December 2015	688	80	11	779
As at 1 January 2016	688	80	11	779
Addition during the year	108	54	—	162
Reduction during the year <sup>(1)</sup>	140	60	—	200
As at 31 December 2016	656	74	11	741
As at 1 January 2017	656	74	11	741
Addition during the five months ended 31 May 2017	46	2	—	48
Reduction during the five months ended 31 May 2017 <sup>(1)</sup>	178	32	7	217
As at 31 May 2017	524	44	4	572

*Note:*

- Reduction during the year and reduction during the five months ended 31 May 2017 refer to the number of inactive customers, who did not place orders with us during the corresponding year/period.

As at the Latest Practicable Date, our Group had 572 PRC customers, 48 Hong Kong customers and six overseas customers.

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### Our five largest customers

The tables below set out a breakdown of our revenue by our five largest customers during the Track Record Period and their background information:

#### For the year ended 31 December 2015

Rank	Customer	Background of customer	Product sold to customer	Year of commencement of business relationship with our Group	Credit term	Revenue derived from customer for the year (HK\$'000)	Approximate percentage of total revenue (%)
1	Stylo	A garment accessories wholesaler in Dubai, UAE	Sewing threads	1999	60 days after billing by telegraphic transfer	22,218	26.8
2	Award	A garment accessories wholesaler in Mauritius	Sewing threads	1999	By telegraphic transfer before shipment arrival	3,092	3.7
3	Customer C	A denim wear manufacturer in the PRC	Sewing threads	2009	45 days after billing	2,866	3.5
4	Customer D	A group of companies engaging in garment manufacturing and trading in Hong Kong and the PRC	Sewing threads	2006	30 to 60 days after billing	2,462	3.0
5	Customer E	A garment manufacturer in the PRC	Sewing threads	2008	45 days after billing	2,210	2.7
Five largest customers in aggregate						32,848	39.7
All other customers						49,981	60.3
Total revenue for the year						82,829	100.0

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### For the year ended 31 December 2016

Rank	Customer	Background of customer	Product sold to customer	Year of commencement of business relationship with our Group	Credit term	Revenue derived from customer for the year (HK\$'000)	Approximate percentage of total revenue (%)
1	Stylo	A garment accessories wholesaler in Dubai, UAE	Sewing threads	1999	60 days after billing by telegraphic transfer	20,556	28.3
2	Award	A garment accessories wholesaler in Mauritius	Sewing threads	1999	By telegraphic transfer before shipment arrival	3,814	5.3
3	Customer C	A denim wear manufacturer in the PRC	Sewing threads	2009	45 days after billing	3,349	4.6
4	Customer F	A garment accessories manufacturer in Hong Kong	Sewing threads	2016	90 days after billing	1,969	2.7
5	Customer D	A group of companies engaging in garment manufacturing and trading in Hong Kong and the PRC	Sewing threads	2006	30 to 60 days after billing	1,745	2.4
Five largest customers in aggregate						31,433	43.3
All other customers						41,191	56.7
Total revenue for the year						72,624	100.0

### For the five months ended 31 May 2017

Rank	Customer	Background of customer	Product sold to customer	Year of commencement of business relationship with our Group	Credit term	Revenue derived from the customer for the year (HK\$'000)	Approximate percentage of total revenue (%)
1	Stylo	A garment accessories wholesaler in Dubai, UAE	Sewing threads	1999	50 days after billing	8,355	32.0
2	Customer F	A garment accessories manufacturer in Hong Kong	Sewing threads	2016	90 days after billing	1,511	5.8
3	Award	A garment accessories wholesaler in Mauritius	Sewing threads	1999	By telegraphic transfer before shipment arrival	1,171	4.5
4	Customer D	A group of companies engaging in garment manufacturing and trading in Hong Kong and the PRC	Sewing threads	2006	30 to 60 days after billing	880	3.4
5	Customer C	A denim wear manufacturer in the PRC	Sewing threads	2009	45 days after billing	879	3.4
Five largest customers in aggregate						12,796	49.1
All other customers						13,309	50.9
Total revenue for the year						26,105	100.0

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For the two years ended 31 December 2016 and the five months ended 31 May 2017, the percentage of our Group's aggregate revenue attributable to our largest customer in terms of revenue was approximately 26.8%, 28.3% and 32.0%, respectively and the percentage of our Group's aggregate revenue attributable to our five largest customers in terms of revenue was approximately 39.7%, 43.3% and 49.1% for the corresponding periods, respectively. None of our Directors, their close associates or any Shareholders who or which, to the knowledge of our Directors, owned more than 5% of the issued Shares of our Company during the Track Record Period and up to the Latest Practicable Date, nor had they any interest in any of the five largest customers of our Group during the Track Record Period and up to the Latest Practicable Date.

### *Background on our five largest customers*

Stylo is a limited liability company incorporated in 1975 in Dubai with a registered capital of AED0.3 million. Stylo with its registered office at A1 Khabesi Area Deira, Dubai, UAE, currently has approximately 68 employees. Stylo is a distributor of threads, buttons and zippers in the Middle East, selling products mainly in the Middle East market, including Dubai. Stylo's customers principally consist of garment manufacturers. Our Group's business relationship with Stylo commenced in 1999, when our Group began to supply sewing threads to Stylo. The annual revenue of Stylo for the two years ended 31 December 2016 was approximately AED80 million to AED85 million and AED80 million to AED85 million, respectively. The business transaction amount of Stylo with our Group was approximately HK\$22.2 million, HK\$20.6 million and HK\$8.4 million for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

Award is a limited company by shares incorporated in April 1993 in Mauritius with a stated capital of MUR0.1 million. Award, with its registered office at Plaine Lauzun, Mauritius, currently has approximately 10 employees. The principal business of Award is trading of textile accessories and provision powder coating services. Award sells its products and services in the Mauritius market. Our Group's business relationship with Award commenced in 1999, when our Group began to supply sewing threads to Award. Their annual revenue for the year ended 31 December 2016 was approximately MUR20 million. The business transaction amount of Award with our Group was approximately HK\$3.1 million, HK\$3.8 million, and HK\$1.2 million for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively. The major customers of Award principally consist of garment manufacturers from the Mauritius market.

Customer C is a company incorporated in November 1995 in the PRC with a registered capital of US\$8 million. Customer C, with its registered office at Taishan, Guangdong Province (廣東省台山市), currently has approximately 900 to 1,000 employees. The scope of business of Customer C is manufacturing and selling both women's and men's clothing including denim wear. Our Group's business relationship with Customer C commenced in 2007, when our Group began to provide sewing threads to Customer C. The annual revenue of Customer C for the two years ended 31 December 2016 was approximately RMB275.5 million and RMB276.8 million, respectively. The business transaction amount of Customer C with our Group was approximately HK\$2.9 million, HK\$3.3 million, and HK\$0.9 million for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

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Customer D is a group comprising four companies in Hong Kong and the PRC that are connected with one another, and have registered offices at Guangzhou, Guangdong province, Jiangmen, Guangdong province, Kowloon, Hong Kong and Dongguan, Guangdong province, respectively. These four companies were established in October 1989, August 1995, August 1987 and November 2005, respectively, and have registered capital of RMB3.6 million, HK\$39.0 million, HK\$50.1 million and HK\$2.0 million, respectively. Our Group's business relationship with Customer D commenced in 2006 when we began to supply them with sewing threads. Customer D engages in the sale and manufacture of garments, and sell its products to overseas markets such as Europe and the U.S. The business transaction amount of Customer D with our Group was approximately HK\$2.5 million, HK\$1.7 million and HK\$0.9 million for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

Customer E is a private company incorporated in January 2005 in the PRC, with a registered capital of approximately US\$4.9 million. Customer E, with its registered office situated at Dongguan, Guangdong Province (廣東省東莞市), had approximately 1,000 and 900 employees for the two years ended 31 December 2016, respectively. The scope of business of Customer E includes manufacturing and wholesaling garments, textiles, shoes, hats and household products. Customer E sells its products into the overseas market such as the U.S. Our Group's business relationship with Customer E commenced in 2008, when our Group began to supply sewing threads to Customer E. The annual revenue of Customer E for the two years ended 31 December 2016 was approximately RMB94.8 million and RMB95.7 million, respectively. The business transaction amount of Customer E with our Group was approximately HK\$2.2 million, HK\$1.3 million and HK\$11,600 for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

Customer F is a private company incorporated in 25 July 1995 with a share capital of HK\$0.2 million. Customer F, with its registered office situated at New Territories, Hong Kong, currently has approximately 200 employees. The scope of business of Customer F includes manufacturing metal accessories such as buttons and buckles for export. Customer F sells its products in overseas markets such as Europe and the U.S. Our Group's relationship with Customer F commenced in 2016, when our Group began to supply sewing threads to Customer F. The business transaction amount of Customer F with our Group was approximately HK\$2.0 million and HK\$1.5 million for the year ended 31 December 2016 and five months ended 31 May 2017, respectively.

## **SALES AND MARKETING**

Our sales team is responsible for maintaining relationships with our existing customers and reaching out to new customers, primarily in Guangdong province. We intend to expand the size of our sales force in support of our expansion plan. Please refer to the paragraph headed “Our Business Strategies — Expanding our sales network” in this section for further details.

### **Sales**

We sell our sewing threads in the PRC and Hong Kong as well as overseas. Our customer services department, consisting of ten of our staff employees, are responsible for taking orders from our existing customers and assisting with the provision of after-sales services. In addition, we have sales personnel in the PRC and Hong Kong to deal with our sales by region. Our sales team of 12 members, under our sales department, are responsible for communicating with our existing customers. They maintain close contact with our existing customers by paying visits to them from time to time. Our sales team members endeavour to respond to our existing customers’ enquiries in a timely manner and understand their needs. They also collect feedbacks on our products from our existing customers and provide them with an update of our product information and market trends. Our Group is committed to offering quality service to our customers.

### **Pricing policy**

Our pricing policy aims to facilitate the profitability of our business as well as our sustainable growth strategy. In determining the prices of our products, we take into account a number of factors including costs of raw materials, labour costs and the specification requirements of the products.

The price of our products, including 100% spun polyester sewing threads and other sewing threads, is generally determined on a “cost-plus” basis, comprising mainly the cost of raw materials, labour costs and our profit margin. Our Directors believe that our “cost-plus” pricing policy, which applies to our 100% spun polyester sewing threads and other sewing threads, enables us to pass on the increase in costs of raw materials to our customers.

### **Credit period and settlement**

Based on factors including the length of business relationship as well as the historical settlement records, we generally grant a credit period of 30 to 90 days upon issue of invoice to our PRC customers, Hong Kong customers and overseas customers. For our new customers, we normally demand settlement of payment in advance of delivery of our products. During the Track Record Period, our customers mainly settled payments by way of bank transfer or telegraphic transfer in Renminbi, Hong Kong dollars or US dollars.

For our overseas sales, our products are delivered to our overseas customers by shipment on a cost, insurance and freight (CIF), cost and insurance (C&I) or cost and freight (C&F) basis. Title and risks of our products are passed to our customers at the time when our products are on board the vessel.

During the Track Record Period, we had not experienced any major defaults in payment from our customers.



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### **Products return policy and after-sales services**

Our Group normally allows exchange of defective products but do not allow return of products for other reasons. Upon return of the defective products to us, we will investigate the quality issue raised by our customers. We normally arrange a replacement for our customers. During the Track Record Period, we had not experienced any substantial replacement or exchange of our products arising from quality issues.

Staff from our sales department are responsible for our after-sales services. They communicate with our customers from time to time to collect their feedbacks on the quality, product preferences, improvement and market demand for our products. Our sales manager discusses the feedbacks from our customers with our sales team members on a regular basis so as to raise the quality of our products as well as customer services.

### **Marketing and promotion**

Our sales team is also responsible for conducting marketing activities and reaching out to new customers. Our sales personnel pay visits to potential customers in Guangdong Province. They present our product catalogues as well as pamphlets to potential customers during their visits and give them an introduction of our products. After their visits, they will have a follow-up with the potential customers, including answering their enquiries and sending them quotations.

### **SEASONALITY**

Our sales performance is slightly affected by seasonality. We generally record lower revenue in the months of January and February as a majority of our customers, being garment manufacturers, temporarily cease their operations and close their factories during the Chinese New Year holidays. Besides, our Guangzhou Production Facilities do not operate during the Chinese New Year holidays, including the manufacturing of sewing threads and the taking of orders from our customers, which affect our sales performance during the period.

### **QUALITY CONTROL**

We are committed to quality as we understand that good quality of our products is our competitive edge. Our quality control department, consisting of five staff members, is responsible for quality control. Our quality control manager is in charge of the overall quality control. We implement various quality control measures throughout our manufacturing process to ensure that we produce quality sewing threads. Our quality management system has been accredited with ISO 9000:2000 certification since 2000.

Our quality control staff perform inspections and/or quality tests at each key stage of production to ensure that our products satisfy our internal standards as well as our customers' requirements:

- **Raw materials quality control**

For the yarn delivered to us, our quality control staff perform the yarn count and length test on a sampling basis. We also test the yarn for knots. If we discover any samples which fail to meet the length requirement and/or contain too many knots, we will communicate with our yarn manufacturers and arrange for return or replacement. If the yarn from the yarn manufacturer is already twisted, we will perform the twist and strength tests on a sampling basis. If we discover that the yarn is not properly twisted or the yarn is not strong enough according to our internal standards, we will ask our yarn manufacturers for a replacement.

Upon delivery of other raw materials to us, we inspect them on a sampling basis. Should we discover any sub-standard or defective items, our quality control staff will communicate with the relevant supplier and arrange for return or replacement of such supplies.

- **Production quality control**

To ensure that our products' conformity to the dyeing requirements and standards of our customers as well as consistency in the quality of our dyed sewing threads, we send our quality control personnel to the production facilities of our dyeing suppliers located at Foshan, Shenzhen and Hanchuan regularly to perform quality checks. At the dyeing production facilities, our quality control personnel make sure that (i) the dyeing agents used for our sewing threads conform to the industry environmental standard of "OEKO-TEX® STANDARD 100"; and (ii) the dyeing process is properly carried out. A colour check on a dyed sewing thread sample will be performed before the whole batch of sewing threads is dyed. If any problem arises from the inspection, we will ask our dyeing suppliers to do the dyeing for our threads again.

When dyeing is finished, our dyeing suppliers will deliver the dyed sewing threads to us and our quality control department will perform the colour matching and fastness tests. Should there be any sub-standard items, we will return them to our dyeing suppliers.

- **Output quality control**

Our Guangzhou Production Facilities come up with the finished products when the waxing and winding process is finished. Before packaging and delivery of our finished products, our quality control staff conduct final control check on the products, covering aspects of quality and appearance. We require our quality control personnel to conduct inspection and testing on our finished products on a sampling basis. Our quality control staff perform various tests on our sewing thread samples, including weight, length, strength, elongation, colour fastness and knots. A final visual inspection is also conducted by our staff before packaging. If the inspection result is to the satisfaction of our staff, our sewing threads will be sent for packaging. Those products that fail to meet the quality standards are subject to failure analysis. We identify the root cause of failures and determine appropriate remedial actions.

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We also conduct laboratory testing not less than once a year to ensure that the products conform to the standards required by our customers as well as certified standards. Our production personnel and quality control personnel meet regularly to discuss the causes of the quality problems of our goods and the corresponding solution with a view to enhancing the quality of our products.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any substantial return or recall of our products due to quality defects.

### INVENTORY MANAGEMENT

Our inventory mainly comprises raw materials and finished products. The raw materials inventory is stored either in our warehouse or with our yarn manufacturers whereas the finished products inventory is only stored in our warehouse. We closely monitor our inventory level, try to minimise any waste on inventory and avoid obsolete inventory.

#### Raw materials

The inventory level for our raw materials is principally determined by our production requirements as well as the order amounts of our products we receive from our customers. Our policy is to maintain turnover days <sup>(Note)</sup> of raw materials at approximately 67 days for our raw materials. Our Directors are of the view that such an inventory level is adequate to ensure the smooth operation of our production lines. For packing materials and other raw materials, we do not maintain a high inventory level and the inventory policy for such is basically formulated based on our production needs.

Our Group adopts a first-in-first-out approach for the utilisation of our raw materials and parts and components. We keep track of the inventory level by conducting regular checks on quality and quantity of our raw materials inventory. Moreover, our procurement staff and our production staff work closely with each other in order to formulate effective procurement budgets and plans as well as production schedules. As at 31 December 2015, 31 December 2016 and 31 May 2017, our raw materials inventory amounted to approximately HK\$3.8 million, HK\$4.0 million and HK\$3.4 million, respectively, and no obsolete raw materials inventory was recorded, respectively.

*Note:* Calculated as the average of the beginning and ending balance of raw materials for the year, divided by direct material costs multiplied by the number of days in the period (365 days and 365 days for the two years ended 31 December 2016, respectively and 151 days for the five months ended 31 May 2017).

#### Finished products

Our finished products are sewing threads. Our sewing threads are stored by colour as well as by thickness. As at 31 December 2015, 31 December 2016 and 31 May 2017, our finished products inventory amounted to approximately HK\$4.0 million, HK\$3.5 million and HK\$3.5 million, respectively, and no obsolete finished products inventory was recorded, respectively.

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## AWARDS AND CERTIFICATION

In recognition of our good quality management, we have been accredited with the certification of “ISO 9001:2008 Quality Management System” by DNV GL Business Assurance since 2000. In addition, we have been accredited with the certification of the “OEKO-TEX® STANDARD 100” by Oeko-Tex Association since 2002 in recognition of the good quality of the raw materials, intermediate and end products at all stages of our production.

## COMPETITION

We face competition from other international and local sewing thread manufacturers. Our Directors believe that the principal competitive factors include the following:

- product quality;
- selling prices;
- customer base;
- reputation;
- supply stability and reliability; and
- delivery time.

According to the CIC Report, the major entry barriers to the sewing thread market in the PRC are large capital investment, abundant industrial knowledge and practical experience in the sewing thread market, efficient sales network and strict regulatory standards and requirements with respect to the environment. For further details, please refer to the section headed “Industry Overview” of this prospectus.

Our Directors are of the view that our long-term stable business relationships with our customers and suppliers, our stringent quality control mechanism, our strategic location and our experienced management team help reinforce our position in the sewing threads industry as well as further expand our business.

## INSURANCE

Our Group takes out public liability insurance, business interruption insurance and accident liability insurance policies. We also take out property all risk insurance to cover the machinery and equipment used in our operations in the PRC, and marine cargo insurance to cover shipment of finished products from the PRC to overseas destinations. We also maintain certain other insurance policies for our employees in both Hong Kong and the PRC. We take out employees’ compensation insurance for our employees in Hong Kong. For employees in the PRC, we maintain the social insurance fund and housing provident fund. Please refer to the paragraph headed “Employees — Social insurance fund and housing provident fund” in this section for further details.

## **ENVIRONMENTAL PROTECTION**

Manufacturing enterprises in the PRC are subject to various PRC environmental laws and regulations and rules, including, the PRC Environmental Protection Law 《中華人民共和國環境保護法》 and the PRC Law on Prevention and Control of Water Pollution 《中華人民共和國水污染防治法》. In addition, the relevant PRC environmental protection laws impose fees for discharge of waste substances as well as fines and indemnity for the improper discharge of waste substances and serious pollution caused to the environment. For details of the relevant PRC laws and regulations, please refer to the section headed “Regulatory Overview — Laws and Regulations in relation to Our Business Operation in the PRC — Environmental protection” of this prospectus.

Our Group is committed to operating in compliance with applicable environmental laws and regulations and we have taken steps to ensure that any waste and by-products produced in the course of our manufacturing are properly treated so as to minimise the adverse impact on the environment. Prior to May 2016, when we performed the dyeing process at our production facilities, our production process generates moderate amount of waste water, air pollutants and other industrial waste at different stages of our production process. Since the cessation of our dyeing process, the impact we could cause to the environment was reduced. Despite the fact that our production process does not cause any material adverse impact to the environment, we have implemented the following measures:

- Raw materials control: dyeing process is involved in our operation process. We ensure that the dyeing agents used for our sewing threads are in compliance with the industry environmental standard of “OEKO-TEX® STANDARD 100”.

“OEKO-TEX® STANDARD 100” is a global standard issued by the International Association for Research and Testing in the Field of Textile Ecology and items which are eligible for certification include raw and dyed/finished yarns, woven and knitted fabrics, accessories such as buttons, zip fasteners, sewing threads or labels and ready-made articles of various types. We have applied for such certification for our dyed sewing threads since 2002. Prior to May 2016, when we performed the dyeing process at our production facilities, we made sure that the dyeing agents purchased by us and our dyeing process were in compliance with this industry environmental standard. Since we started subcontracting the dyeing process to our suppliers in May 2016, we have ensured that the dyeing agents purchased by us or our suppliers conform to this industry environmental standard. We also send our quality control staff to our suppliers’ dyeing facilities to monitor the dyeing process and make sure it meets the criteria set for OEKO-TEX® STANDARD 100. Please refer to the paragraph headed “Quality Control” in this section for further details.

- Plastic cones recycling: we collected all the plastic cones used for dyeing purposes and passed them to external recycling companies for recycling.

As our production process does not involve any significant discharge of pollutants. During the Track Record Period and up to the Latest Practicable Date, save as the penalty imposed in relation to the non-compliance incident disclosed in the paragraph headed “Regulatory Non-compliance” in this section, we had not been subject to any penalty or fines imposed by the relevant environmental protection authorities for failure to comply with the applicable PRC laws and regulations in relation to environmental protection.

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As advised by our PRC Legal Adviser, save as the non-compliance incident disclosed in the paragraph headed “Regulatory Non-compliance” in this section, we have complied with the relevant environmental, health and safety laws and regulations of the PRC in all material respects.

### OCCUPATIONAL HEALTH AND SAFETY

Our Group places emphasis on occupational health and safety. We are subject to PRC laws and regulations in relation to labour and workplace safety. During the Track Record Period and up to the Latest Practicable Date, none of our employees had been involved in any major workplace accident in the course of their employment, and we had not been subject to disciplinary actions with respect to labour protection issues, nor had we experienced any claims for personal or property damage that, individually or in aggregate, have had a material effect on our financial conditions and results of operations. During the Track Record Period and up to the Latest Practicable Date, we had complied with the applicable PRC laws in relation to labour and workplace safety in all material aspects.

To ensure compliance with the applicable laws and regulations, we have implemented measures at our production facilities to promote occupational health and safety. In line with ISO 9001:2008 requirements, we have in place safety guidelines and operating manuals setting out safety measures for our production process. In addition, we offer our employees, particularly, our factory workers, training sessions on work safety to ensure that all of our employees are aware of our safety procedures and policies, which consist of guidelines for safety management, emergency handling procedures and proper operation of machinery and equipment.

During the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant PRC regulatory requirements on workplace safety in all material respects and had not had any incidents or complaints which had materially and adversely affected our operations.

### EMPLOYEES

As at 31 December 2015, 31 December 2016 and 31 May 2017, our Group had a total of 252, 206 and 191 employees, respectively. As at the Latest Practicable Date, we had a total of 189 employees, of whom 182 were located in the PRC and seven were located in Hong Kong. The table below sets out the functional distribution of the employees of our Group as at the Latest Practicable Date:

Function	Number of employees		Total
	PRC	Hong Kong	
Managerial, administrative and finance	28	2	30
Sales and marketing	22	4	26
Procurement	3	—	3
Production	90	—	90
Quality control	5	—	5
Logistics	34	1	35
<b>Total</b>	<b>182</b>	<b>7</b>	<b>189</b>

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Our Group generally recruits our staff in the PRC by posting notices at the entrance of our property or through internal referrals and our staff in Hong Kong through recruitment websites and newspapers. Our recruitment is based on a number of factors such as the candidates' educational background, previous work experience and our vacancy needs. Our Directors believe that our ability to recruit and retain experienced and skilled labour and non-manual staff is crucial to our business growth and development. For our management and office staff, we offer them remuneration packages comprising basic salaries, discretionary bonuses and allowances. For our workers at Guangzhou Production Facilities, we offer them salaries above the minimum wage, provide them with promotion opportunities and allow them budgets for social events such as birthday celebrations. We strive to maintain good and harmonious relationships with our employees.

We understand that adequate training is important for our business operations. We provide our new employees with training covering various areas of operations including knowledge on the operations of the production machinery and equipment, safety precautions and the internal control system of our Group. In addition, we arrange on-the-job training, led by foremen, for our new workers at Guangzhou Production Facilities. We encourage our office staff to attend seminars or external training courses in the relevant field by granting them paid leave and/or subsidies upon their application.

For the two years ended 31 December 2016 and the five months ended 31 May 2017, our Group incurred staff costs (excluding Directors' remuneration) amounting to approximately HK\$19.3 million, HK\$18.6 million and HK\$6.1 million, respectively. Our Directors believe that we have maintained a positive relationship with our employees. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material labour disputes, strikes or other labour disturbances.

### **Social insurance fund and housing provident fund**





Pursuant to applicable PRC laws and regulations, employers are required to make contributions to, and employees are required to participate in, a number of social insurance funds (including funds for basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance) and the housing provident fund. For further details, please refer to the section headed "Regulatory Overview — Labor protection — Social insurance and housing provident fund" of this prospectus.

During the Track Record Period, we had received requests by some of our employees in respect of social insurance fund contributions. We had already paid such contributions as requested. During the Track Record Period and up to the Latest Practicable Date, save as disclosed in the paragraph headed "Regulatory Non-compliance" in this section, we had not received any order or notice from the local authorities nor any claims or complaints from our current and former employees for insufficient contributions by us to any social insurance fund or housing provident fund requesting contributions to any social insurance or housing provident funds. For the two years ended 31 December 2016 and the five months ended 31 May 2017, we failed to make contributions to the social insurance fund for some of our PRC employees as required under the relevant laws and regulations as advised by our PRC Legal Adviser and the estimated outstanding amounts which we did not make were approximately RMB3.6 million, RMB2.9 million and RMB2.4 million in respect of social insurance payments as at 31 December 2015, 31 December 2016 and 31 May 2017, respectively. We have already made provisions for such

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shortfall. We have made up the shortfall since July 2017 for all but three employees who have social security fund accounts in different cities and with different entities. Please refer to the paragraph headed “Regulatory Non-compliance” in this section for further details.

### INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we had owned four registered trademarks in Hong Kong under the brands , **SPACE**, *Space* and  and three registered trademarks in the PRC under the brands , *Xpace* and . In addition, we are the registered owner of the domain names, xinhua.gd.cn in the PRC and [www.shenyouholdings.com](http://www.shenyouholdings.com) in Hong Kong. Please refer to the paragraph headed “Intellectual property rights of our Group” in Appendix IV to this prospectus. To the best of our Directors’ knowledge, during the Track Record Period and up to the Latest Practicable Date, we had not infringed or were not alleged to infringe any intellectual property rights owned by third parties.

### PROPERTIES

As at the Latest Practicable Date, our Group did not own any properties in the PRC and Hong Kong. As at the Latest Practicable Date, we leased a total of two properties — one in the PRC and one in Hong Kong. The leased property in the PRC, which occupies a total gross floor area of approximately 11,275 sq.m., is used for our production facilities, warehouse and office. The leased property in Hong Kong is used as our Hong Kong office. Both properties were leased from Independent Third Parties. The leases of the properties in the PRC and Hong Kong each have a term of 19 years and 6 months and two years, respectively.

Details of our leased properties are set out as follows:

Address	Gross floor area (approximately)	Monthly rental	Use of the property	Duration
(廣州市荔灣區增窖村 增南路386號)	11,275 sq.m.	RMB92,743.13	Production facilities, warehouse and PRC office	From 1 January 2004 to 30 June 2023
Units 1006-7, 10/F, Kowloon Centre, No. 33 Ashley Road, Tsim Sha Tsui, Kowloon, Hong Kong	142 sq.m.	HK\$43,000	Hong Kong office	From 24 October 2016 to 23 October 2018



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### **LICENCES AND PERMITS**

According to our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date and save as disclosed herein, we had complied with all applicable laws and regulations in the PRC in all material aspects and had obtained and renewed all requisite permits, licences and approvals requires for its operations in the PRC. A summary of the relevant PRC laws and regulations has been set out in the section headed “Regulatory Overview — Laws and Regulations in relation to Our Business Operation in the PRC” of this prospectus.

### **LEGAL PROCEEDINGS**

During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge after having made reasonable enquiries, there was no litigation or arbitration proceedings pending or threatened against us or any of our Directors which would have a material adverse effect on our financial conditions or operating results.

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### REGULATORY NON-COMPLIANCE

The following table sets forth our material non-compliance incidents under the relevant PRC laws and regulations during the Track Record Period and up to the Latest Practicable Date, and the remedial measures we have taken in response to these incidents:

Particulars of non-compliance	Reasons for non-compliance	Legal consequences and potential maximum penalties (where applicable)	Rectification actions taken and status	Measures adopted by our Group to prevent the recurrence of non-compliance and to ensure continuing compliance
<p>1. As at the Latest Practicable Date, we had not registered the lease for our property situated in Liwan, Guangzhou, which we used for our production facilities, warehouse and PRC office with the relevant housing administration authority of the PRC as required under the PRC law.</p>	<p>This non-compliance incident was primarily caused by lack of cooperation from the landlord in registering the relevant lease agreement, which was beyond our control. Registration of a lease agreement requires the landlord's cooperation, including the submission of the identity documentation of the landlord and building title certificates to the relevant authority.</p>	<p>Our PRC Legal Adviser has advised us that we might be ordered to rectify this non-compliance by any competent authorities. If we fail to rectify within a specified period, a penalty of RMB5,000 to RMB10,000 may be imposed on us for non-registration.</p>	<p>As at the Latest Practicable Date, we had not received any notice from any regulatory authority with respect to potential administrative penalties or enforcement actions as a result of our non-registration of the lease aforementioned. Our PRC Legal Adviser has advised us that the failure to register the lease agreement would not affect its validity and non-registration of a lease is not a ground for any third party or regulatory authority to evict us.</p> <p>Since our PRC Legal Adviser had advised us that non-registration of a lease is not a ground for any third party or regulatory authority to evict us, we currently do not have any contingency plan for relocation. In the event that the relevant applicable laws and regulations are changed and we are required to relocate, our Directors are of the view that there would be no obstacle to relocate our Guangzhou Production Facilities in the vicinity based on the comparable rental quotations offered by independent third parties for similar properties in the vicinity.</p>	<p>We are in the process of negotiating with the landlord in respect of the registration of the lease agreement.</p>

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Particulars of non-compliance	Reasons for non-compliance	Legal consequences and potential maximum penalties (where applicable)	Rectification actions taken and status	Measures adopted by our Group to prevent the recurrence of non-compliance and to ensure continuing compliance
<p>2. Guangzhou Xinhua failed to make contributions to the social security fund for some of our employees required by the PRC government.</p>	<p>These non-compliance incidents occurred primarily because some of our employees chose not to be enrolled in the social security fund and/or housing provident fund. Some of our employees, who are migrant workers or non-PRC citizens, were less willing to make contributions to the social welfare schemes of the city since they either only immigrate to or work in the city temporarily and hence, do not want to bear their portion of the contributions. Such non-compliance was, to a less extent, caused by administrative oversight, our local staff's unfamiliarity with the relevant regulatory requirements and PRC local authorities' inconsistent implementation or interpretation of the relevant regulations.</p>	<p>We have been advised by our PRC Legal Adviser that late charges and fines may be imposed on us if we fail to make the social security fund contributions for our employees in full amount in a timely manner. We may be ordered to pay the unpaid amount within a specified period, together with a late charge equivalent to 0.05% of the unpaid amount per day. Should we continue to fail to pay the unpaid amount and/or the late charge, we may be subject to a fine that equals up to three times of the total unpaid amount of the social security fund contributions.</p>	<p>Based on the interview conducted by our PRC Legal Adviser with the relevant authority, each July is the cut off month of calculating the social security fund, we have made full contributions to the social security fund since July 2017 for all but three employees, since these employees each have an existing social security fund account in another city or with another entity, which has rendered us unable to make social security fund contributions on their behalf.</p> <p>Each of these employees has made a declaration that they would not claim from us their portion of the social security fund or hold us legally responsible for any failure to make the relevant social security fund contributions. Our PRC Legal Adviser has advised us that the risk of Guangzhou Xinhua being fined for failing to make contributions to the social security fund in full amount on time is remote. Nevertheless, we have made provisions for the unpaid social security fund contributions of approximately RMB3.6 million, RMB2.9 million and RMB2.4 million as at 31 December 2015, 31 December 2016 and 31 May 2017, respectively.</p>	<p>We have designated the head of our human resources department to carry out procedures to ensure our compliance with the regulatory requirements in relation to the social security fund under the relevant PRC laws and regulations, including:</p> <ol style="list-style-type: none"> <li>(1) reviewing and updating our employment records monthly to ensure that we make social security fund contributions for all our employees in a timely manner; and</li> <li>(2) checking the amount of the contributions against the payroll records to make sure that adequate social security fund contributions are made.</li> </ol>

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Particulars of non-compliance	Reasons for non-compliance	Legal consequences and potential maximum penalties (where applicable)	Rectification actions taken and status	Measures adopted by our Group to prevent the recurrence of non-compliance and to ensure continuing compliance
<p>3. In June 2015, in the course of our dyeing process, the level of air pollutants emitted by the steam boiler located at our Guangzhou Production Facilities exceeded the relevant environmental standard set by the relevant PRC government authority with respect to the emission of air pollutants by boilers.</p>	<p>We engaged a steam supplier to produce steam to facilitate the dyeing operation in our Guangzhou Production Facilities. The non-compliance incident was due to the mistakes made by our steam supplier, who was responsible for the steam boiling procedure.</p>	<p>We were requested by the competent government authority to pay a fine of RMB100,000, which was fully settled in December 2015 as the level of emission of air pollutants caused by our boiler in the course of the manufacturing process exceeded the relevant environmental standard set by the relevant PRC government authority.</p>	<p>Since our steam supplier was responsible for the procedure of steam boiling, our steam supplier indemnified us for the fine of RMB100,000 imposed on us.</p> <p>In May 2016, to act in line with the town planning policy launched by the local municipal government, we ceased our dyeing process.</p> <p>Our PRC Legal Adviser has advised us that upon the cessation of our dyeing process and the demolition of the steam boiler, our operating process as at the Latest Practicable Date did not involve the release of waste water and air pollutants and hence, our Guangzhou Production Facilities could continue its operation.</p> <p>The non-compliance was a single incident which happened on 18 June 2015. Our PRC Legal Adviser further advised us that they were confirmed by the LDEP Bureau during an interview in June 2017 that our Guangzhou Production Facilities met the required emission level of air pollutants at the time when it ceased its dyeing process in May 2016 and had no other legal non-compliance with the applicable laws and regulations.</p> <p>Please refer to the paragraph headed “Compliance with the Recommendation and the Measures on PCWP” of this section for further details of the Recommendation.</p>	<p>We have ceased the operation of our dyeing process. Nevertheless, we have designated Mr. She Siu Ming, deputy general manager of Guangzhou Xinhua, to review the environmental standards and requirements applicable to us from time to time and make sure that our operations are in compliance with the relevant standards and requirements. In addition, when there is an update on the relevant environmental standards and requirements, we examine the relevant procedure of our operation process and make the necessary adjustments.</p>

### **Indemnity by our Controlling Shareholder with respect to non-compliance incidents**

Mr. Wong, one of our Controlling Shareholders, have agreed to indemnify our Group in respect of, among other matters, any unpaid amount, penalty and other monetary damages which would be incurred or suffered by our Group as a result of the non-compliance incidents as set out above. Our Directors are satisfied that Mr. Wong have sufficient financial resources to honour his obligations to provide indemnities in respect of any unpaid amount, penalty and other monetary damages incurred or suffered by our Group as a result of the aforesaid non-compliance incidents.

### **Views of our Directors and Sole Sponsor**

Having considered that:

- the non-compliance incidents, details of which are set out in the paragraph headed “Regulatory Non-compliance” in this section, were unintentional, did not involve any dishonesty or fraudulent act on the part of our Directors, and did not raise any question as to the integrity of our Directors;
- our Group has taken remedial actions and fully rectified the non-compliance incidents;
- our Group has implemented and will continue to implement appropriate measures to prevent recurrence of the non-compliance incidents and will engage an external legal adviser for ensuring strict compliance with the relevant laws and regulations; and
- there was no recurring of similar non-compliance incidents since the implementation of relevant remedial measures.

### **RISK MANAGEMENT AND INTERNAL CONTROL**

To enhance the effectiveness of our corporate governance and our internal control system and to ensure compliance with the relevant laws and regulations after the Share Offer, we intend to adopt or have adopted the following measures, in addition to the remedial measures, for the specific non-compliance set out in the paragraph headed “Regulatory Non-compliance” above in this section.

We engaged an independent internal control consultant (the “**Internal Control Consultant**”) in April 2016 to conduct a comprehensive review of our Group’s internal control system, including the areas of financial, operation, compliance and risk management and we have implemented the relevant internal control measures based on the recommendations of the Internal Control Consultant, including but not limited, to the following:

1. our company secretary will act as the principal channel of communication between members of our Group and our Company in relation to legal, regulatory and financial reporting compliance matters of our Group as well as the chief coordinator to oversee the internal control procedures in general. Upon receipt of any queries or reports on legal, regulatory and financial reporting compliance matters, our company secretary will examine the matter and, if considered appropriate, seek advice, guidance and recommendation from professional advisers and report to relevant members of our Group and/or our Board;
2. we appointed Huabang Corporate Finance Limited as our compliance adviser upon Listing to advise our Group on compliance matters in accordance with the GEM Listing Rules;
3. we have appointed a qualified PRC law firm as our external PRC legal adviser, which will provide us with advice and assistance in relation to the PRC legal and compliance matters in the future;
4. we have adopted a risk assessment and management policy, covering the scope of risk assessment and the frequency of assessing risks;

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5. we have enhanced our management of legal matters, including entering into contracts with other parties and litigation issues;
6. we have established a management system in relation to annual budgeting, covering budget making and relevant execution and approval procedures; and
7. we have designated our staff, led by Mr. She Siu Ming, to review the environmental standards and requirements applicable to our operations and ensure compliance.

Our Directors are of the view, and the Sole Sponsor concurs, that the enhanced internal control and risk management measures adopted by us, taking the recommendations from the Internal Control Consultant, are adequate and effective in significantly reducing the risk of future non-compliance with the relevant legal and regulatory requirements. In addition, the Sole Sponsor, after considering the above, concurs with our Directors' view that our Directors have the character, experience, and integrity and the level of competence required of a director under Rules 5.01 and 5.02 of the GEM Listing Rules and our Company and business is suitable for listing under Rule 11.06 of the GEM Listing Rules.

### **BUSINESS ACTIVITIES IN RUSSIA**

The U.S. and other jurisdictions or organisations, including the European Union, the United Nations and Australia, have comprehensive or broad economic sanctions targeting Sanctioned Countries. During the Track Record Period, we delivered sewing thread products to one customer located in Russia, which is subject to certain International Sanctions that target various Russian industry sectors and entities. The amount of total revenue derived from sales of products delivered to our customer in Russia represented approximately 0.5% and 0.5% of our total revenue for the two years ended 31 December 2016, respectively. We ceased our business relationship with such customer in May 2016. As advised by Hogan Lovells, our legal advisers as to International Sanctions, the delivery of our products to Russia during the Track Record Period does not implicate any applicable International Sanctions on our Group, or any person or entity, including our Group's investors, our Shareholders, the Stock Exchange, HKSCC and HKSCC Nominees.

As advised by Hogan Lovells, our legal advisers as to International Sanctions, our sales to the customer located in Russia during the Track Record Period were not considered sanctioned activities under the International Sanctions and, hence, did not implicate the application of International Sanctions on our Group, or any person or entity including our Shareholders, the Stock Exchange, HKSCC, HKSCC Nominees and the SFC. In providing their advice, Hogan Lovells performed the following procedures:

- (i) reviewing the sales invoices and contractual documentation provided by us that evidence our sales transactions with the customer in Russia during the Track Record Period;
- (ii) screening the list of our customers provided by us in all other countries other than the Sanctioned Countries against the consolidated list of sanctioned targets maintained by the United States, the European Union, the United Nations and Australia; and
- (iii) receiving written confirmation from us that neither our Group nor our affiliates had conducted any business dealings in or with any other countries or persons that are subject to International Sanctions during the Track Record Period.

## BUSINESS

We confirm that, save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, our Group has not been involved in any other direct or indirect business activities in connection with any countries, governments, entities or individuals sanctioned by the United States, the European Union, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC administered sanctions. In relation to our activities in the Sanctioned countries, we have not been notified that any sanctions will be imposed on us.

Based on the abovementioned advice from Hogan Lovells and taking into account the cessation of our sales transactions with the customer in Russia in March 2016, our Directors and the Sole Sponsor are of the view that the risk of sanctions violations as a result of our Group's sales to the customer in Russia during the Track Record Period upon Listing is remote.

### **Our undertakings to the Stock Exchange and internal control and risk management measures**

We undertake to the Stock Exchange that we will not use the proceeds from the Share Offer or any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, the Sanctioned Countries, or any other government, entity or individual sanctioned by the United States, the European Union, the United Nations or Australia, including, without limitation, any government, entity or individual that is the subject of any OFAC-administered sanction. Further, we undertaken that we will not enter into any sanctionable transactions that would expose our Group, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders to any risk of being sanctioned. Should we believe that the transactions we entered into in Russia or any other Sanctioned Countries would put our Group or our Shareholders and investors at the risk of being sanctioned, we will disclose it on the respective websites of the Stock Exchange and our Company. Moreover, we will disclose it in our annual reports or interim reports our efforts in examining our business exposure to sanctions risk, the status of future business, if any, in Russia or any other Sanctioned Countries and our business intention relating to Russia or any other Sanctioned Countries. Our Group does not intend to enter into any business transaction in any other Sanctioned Countries.

We will continue to monitor and evaluate our business and adopt measures to protect the interests of our Group and our Shareholders. As at the date of this prospectus, the following measures have been fully implemented:

- Prior to deciding whether we should embark on any business opportunity in the Sanctioned Countries and/or with Sanctioned Persons, we would conduct an evaluation of the sanctions risks to which we might be exposed. Based on our internal control procedures, we have delegated members of our senior management to review and approve all relevant business transaction documents from customers or potential customers from Sanctioned Countries and Sanctioned Persons. The designated staff will review the information relating to the counterparty of the contract, including its identity and nature of business, along with the draft business transaction documentation. The designated staff will check the counterparty against the various lists of restricted parties and countries maintained by the United States, the European Union, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions by means of the lists that are publicly available, and determine whether the counterparty is, or is

## **BUSINESS**

owned or controlled by, a person located in any of the Sanctioned Countries or a Sanctioned Person. Should our designed staff identify any potential sanctions risk, we will seek advice from external legal counsel with the relevant expertise.

In respect of the internal control measures set out above and subject to the full implementation and enforcement of these measures, the Sole Sponsor is of the view that these measures will provide a reasonably adequate and effective framework to assist our Company in identifying and monitoring any material risk relating to sanctions laws. Our Directors are of the view that these measures will provide a reasonably adequate and effective framework to assist us in identifying and monitoring any material risk relating to sanctions laws.



## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

### OVERVIEW

Immediately upon completion of the Share Offer and the Capitalisation Issue, Mr. Wong will, via Three Gates Investment, indirectly and beneficially own 75% of the issued shares of our Company taking no account of the Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option or Shares which may be issued upon the exercise of options that may be granted under the Share Option Scheme, and hence Mr. Wong and Three Gates Investment are our Controlling Shareholders. Three Gates Investment is an investment holding company. For Mr. Wong's background, please refer to the section headed "Directors and Senior Management — Members of our Board — Executive Directors" of this prospectus.

Apart from our business, our Controlling Shareholders and their close associates are currently operating other businesses such as provision of accounting, taxation, and management consultancy services and trading of the water conservation devices (the "**Excluded Businesses**"). In order to focus on business of manufacturing and selling of sewing threads, and in line with our strategic direction and development plan, the Excluded Businesses will not form part of our Group after Listing.

None of our Controlling Shareholders is interested in any business which is, whether directly or indirectly, in competition with our business. To ensure that competition will not exist in the future, each of our Controlling Shareholders has entered into the Deed of Non-competition in favour of our Company to the effect that each of them will not, and will procure each of their respective close associates not to, directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with our businesses.

### DELINEATION OF BUSINESS

Our Directors are of the view that there is a clear delineation between the Excluded Businesses and our business, as a result of which none of the Excluded Businesses would compete, or is expected to compete, directly or indirectly, with our core business. None of the companies which are excluded from our Group (the "**Excluded Group**") are engaged in any business relating to manufacturing and selling of sewing threads that competes or may compete with us. The Excluded Businesses were not injected into our Group as our Directors are of the view that such businesses neither form part of our core business nor are in line with our strategy to strengthen our market position in the textile industry in the PRC.

Our Group is principally engaged in the manufacturing and selling of sewing threads, whereas the Excluded Businesses comprise principally provision of accounting, taxation and management consultancy services and trading of the water conservation devices. Given the different nature of our business and the Excluded Businesses, our Directors do not expect there to be any overlap or competition of the Excluded Businesses and our Group's business after the Listing.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

### NON-COMPETITION UNDERTAKING

In order to avoid any future competition between our Group and our Controlling Shareholders, each of our Controlling Shareholders (each a “**Covenantor**”, collectively the “**Covenantors**”) has entered into the Deed of Non-competition in favour of our Company and has undertaken and covenanted with our Company (for itself and as trustee for its subsidiaries) that he/it shall not, and shall procure entities or companies controlled by him/it (other than a member of our Group) not to at any time during the period that the Deed of Non-Competition remains effective, directly or indirectly, either on his/its own account or in conjunction with or on behalf of any person, firm or company (in each case whether as a shareholder, partner, agent, employee or otherwise):

- (i) carry on, engage, participate, concerned or interested in or in any way assist in or provide support (whether financial, technical or otherwise) to any business similar to or which competes (either directly or indirectly) or is likely to compete with any business which is the same as, similar to or in competition with the current business of our Group, namely, manufacturing and selling of sewing threads (the “**Restricted Business**”);
- (ii) canvass, solicit, interfere with or endeavour to entice away from members of our Group any person, firm, company or organisation which to his/its knowledge has from time to time or has at any time with the immediate past one (1) year before the date of such solicitation, interference or enticement been a customer, a supplier or a business partner or employee of any members of Group for the purpose of conducting any Restricted Business;
- (iii) procure orders from or solicit business from any person, firm, company or organisation which to his/its knowledge has dealt with any member of our Group or is in the process of negotiating with any member of our Group in relation to any Restricted Business;
- (iv) do or say anything which may be harmful to the reputation of any member of our Group or which may lead any person to reduce their level of business with any member of our Group or seek to improve their terms of trade with any member of our Group;
- (v) solicit or entice or endeavour to solicit or entice for employment by him/it or entities or companies controlled by him/it (other than our Group) or at any time employ or procure the employment of any person who has, at any time within the immediate past one (1) year before the date of such solicitation or employment, been or is a director, manager, employee of or consultant to members of our Group who is or may be likely to be in possession of any confidential information or trade secrets relating to the Restricted Business carried on by our Group;
- (vi) engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of our Group or be in competition with any member of our Group in any business activities which any member of our Group may undertake in the future save for the holding of not more than 10% shareholding interests (individually or any of the Covenantors with their associates collectively) in any listed company in Hong Kong; and

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (vii) make use of any information pertaining to the business of our Group which may have come to his/its knowledge in his/its capacity as a shareholder of our Company or director of any member of our Group for the purpose of competing with the business of our Group.

In addition, each of the Covenantor has jointly and severally undertaken and covenanted with our Company that if any new business opportunity relating to the Restricted Business is made available to any of the Covenantors or any company or entity controlled by him/it, directly or indirectly, whether individually or together (other than our Group), he/it will or will direct or procure the relevant controlled company or entity to direct such business opportunity to our Group with such required information to enable our Group to evaluate the merits of the relevant business opportunity. The relevant Covenantor will provide or procure the relevant controlled company or entity to provide our Group with all such reasonable assistance to secure such business opportunity.

None of the Covenantors and their relevant controlled companies (other than our Group) shall pursue the relevant business opportunity unless our Company decides not to pursue such business opportunity. Any decision of our Company as to whether or not to pursue the business opportunity will have to be approved by our independent non-executive Directors. Our Group will not be required to pay any fees to any of the Covenantors and/or their relevant controlled companies in relation to such business opportunity.

The Deed of Non-competition and the rights and obligations thereunder are conditional and will take effect immediately upon Listing.

The Deed of Non-competition will cease to have any effect upon the earlier of the date on which:

- (i) our Shares ceased to be listed on the Stock Exchange (except for temporary suspension of our Shares due to any reason); or
- (ii) the Covenantors and/or their respective associates, individually and/or collectively, cease to be entitled to exercise or control the exercise of 30% or more of the voting rights at general meeting of our Company.

Nothing in the Deed of Non-competition shall prevent our Controlling Shareholders or any of their associates from carrying on any business other than the Restricted Business.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

We believe that our Group is capable of carrying on its business independently of, and at arm's length from the Excluded Business, our Controlling Shareholders and their respective close associates (other than our Group) after Listing for the following reasons:

#### Management Independence

Our Board comprises two executive Directors, one non-executive Director and three independent non-executive Directors. Other than Mr. Wong, none of our executive Directors currently holds any directorship or senior management role in the Excluded Group. Mr. Wong is the director of each member of the Excluded Group. He does not expect to devote substantial time in the management of the Excluded Group going forward, save for attending from time to time the board meetings of the Excluded Group. It is expected that Mr. Wong will spend substantially all of his working time in the operations of our Group after Listing.

In the event that Mr. Wong is required to absent himself from any board meeting on any matter which may give rise to a potential conflict of interest with the Excluded Group, our remaining Directors will have sufficient expertise and experience to fully consider any such matter. Notwithstanding the directorship of Mr. Wong in the Excluded Group, our Directors, including our independent non-executive Directors, are of the view that our Board is able to manage our business on a full time basis independently from the Excluded Group for the following reasons:

- (a) none of our businesses undertaken or carried on by the Excluded Group competes with our core business, and there are adequate corporate governance measures in place to manage the existing and potential conflicts of interest. Therefore, the dual roles assumed by Mr. Wong will not affect the requisite degree of impartiality of our executive Directors in discharging their fiduciary duties owed to our Company;
- (b) we have three independent non-executive Directors, and certain matters of our Company, including matters referred in the Deed of Non-competition, details of which are set out in the paragraph headed "Non-competition undertaking" in this section, must always be referred to our independent non-executive Directors for their review. This helps to enhance the independence of our management from that of the Excluded Group;
- (c) in the event of a conflict of interests, Mr. Wong will abstain from voting, will not be present in the relevant Board meetings and will be excluded from deliberation by our Board. Hence, Mr. Wong will not be able to influence our Board in making decisions on matters in which he is, or may be, interested. We believe all of our Directors, including our independent non-executive Directors, have the requisite qualifications, integrity and experience to maintain an effective board and observe their fiduciary duties in the event of a conflict of interests. Please refer to the section headed "Directors and Senior Management — Members of our Board — Independent non-executive Directors" of this prospectus for a summary of the relevant experience and qualifications of our Directors; and
- (d) save as disclosed herein, our daily operations will be managed by our senior management team, none of whom currently holds any senior managerial position or directorship position within the Excluded Group.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Due to the employment arrangement between Jinxin China and Tseyu International from November 2008 to June 2016 as disclosed in the section headed “History, Reorganisation and Corporate Structure — Our Corporate Development — Jinxin China”, during the Track Record Period, the Group paid an amount of approximately HK\$1.05 million and HK\$423,000 respectively as management fee to Jinxin China for the two years ended 31 December 2016, respectively, representing the remuneration paid to sales staff who were under the employment contract with Jinxin China prior to June 2016 in respect to their service to the Group. The rate of management fee was determined primarily taking into consideration the labour costs incurred in the dealing of the relevant services in respect of its market development. Customer management service employees of Jinxin China were later transferred and employed by Tseyu International in June 2016 as a part of the Group’s action to streamline its business. The Group then ceased the management service relationship with Jinxin China since 1 June 2016. Our Directors are of the view that the Group’s relationship with Jinxin China would not impact the management independence of the Board.

### **Operational Independence**

We are independent from our Controlling Shareholders as we do not share operational capabilities with our Controlling Shareholders, and we have independent access to suppliers and customers, as well as an independent management team to handle our day-to-day operations. We are also in possession of all relevant licenses necessary to carry on and operate our business and we have sufficient operational capacity in terms of capital and employees to operate independently from our Controlling Shareholders.

### **Financial Independence**

All loans, advances and balances due from our Controlling Shareholders and their respective close associates and all loans, advances and balances due to our Controlling Shareholders will be repaid before Listing. All share pledges and guarantees provided by our Controlling Shareholders and their respective close associates on our Group’s borrowing will also be fully released upon Listing. Accordingly, we believe we are able to maintain financial independence from our Controlling Shareholders and their respective close associates. In addition, we have our own internal control systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third-party financing.

## **CORPORATE GOVERNANCE MEASURES**

Our Controlling Shareholders and their respective close associates may not compete with us as provided in the Deed of Non-competition. Each of our Controlling Shareholders has confirmed that he/it fully comprehends his/its obligations to act as our Shareholders’ best interests as a whole. Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (a) as part of our preparation for the Share Offer, we have amended our Articles of Association to comply with the GEM Listing Rules. In particular, our Articles of Association provided that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his close associates have a material interest, nor shall such Director be counted in the quorum present at the meeting;

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (b) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the meetings of the Board on matters in which such Director or any of his close associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of our independent non-executive Directors;
- (c) we are committed that our Board should include a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement and will be able to provide an impartial and external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors are set out in the section headed “Directors and Senior Management — Members of our Board — Independent non-executive Directors” of this prospectus; and
- (d) we have appointed Huabang Corporate Finance Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the GEM Listing Rules including various requirements relating to directors’ duties and corporate governance.

## SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors or chief executive as at the Latest Practicable Date, the following persons will, immediately prior to and following the completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme) have interests or short positions in our Shares or underlying Shares which will fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group:

Name of Shareholders	Nature of interest	Share held as at the Latest Practicable Date		Share held immediately prior to the Share Offer and the Capitalisation Issue <sup>(Note 1)</sup>		Shares held immediately following the completion of the Capitalisation Issue and Share Offer <sup>(Note 1)</sup>	
		Number	Percentage (%)	Number	Percentage (%)	Number	Percentage (%)
Mr. Wong	Interest of a controlled corporation	1(L)	100%	1(L)	100%	600,000,000(L)	75%
Three Gates Investment <sup>(Note 2)</sup>	Beneficial Owner	1(L)	100%	1(L)	100%	600,000,000(L)	75%

*Notes:*

- (1) The letter “L” denotes the person’s long position in our Shares.
- (2) Three Gates Investment is beneficially and wholly owned by Mr. Wong. By virtue of the SFO, Mr. Wong is deemed to be interested in our Shares held by Three Gates Investment.

Except as disclosed in this prospectus, our Directors or chief executive are not aware of any person who will, immediately following the completion of the Share Offer and the Capitalisation Issue (assuming no Shares are to be issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme), have interests or short positions in our Shares or underlying Shares which will fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of issued voting shares of any other member of our Group. As at the Latest Practicable Date, our Directors were not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

## DIRECTORS AND SENIOR MANAGEMENT

### OVERVIEW

Our Board currently consists of six Directors, comprising two executive Directors, one non-executive Director and three independent non-executive Directors. The powers and duties of our Board include convening general meetings and reporting our Board's work at our Shareholders' meetings, determining our business and investment plans, preparing our annual financial budgets and final reports, formulating proposals for profit distributions and for the increase or reduction of our registered capital as well as exercising other powers, functions and duties as conferred by our Memorandum and Articles of Association. We have entered into a service contract with each of our executive Directors and non-executive Director. We have also entered into a letter of appointment with each of our independent non-executive Directors. Our Directors are supported by our senior management in the day-to-day management.

The table below sets forth certain information with respect to our Directors and senior management:

### Members of our Board

Name	Age	Date of joining our Group	Date of appointment as Director	Present position(s) in our Company	Roles and Responsibilities	Relationship with other Directors and senior management
Mr. Wong Kwok Wai, Albert (黃國偉)	58	28 October 2008	18 August 2016	Chairman, Chief Executive Officer and executive Director	Responsible for the management and overall strategic planning and development of our Group	Nil
Mr. Lee Wing Hong (李永康)	42	23 June 2017	23 June 2017	Chief Financial Officer and executive Director	Responsible for financial management and control of our Group	Nil
Mr. Ng Chan Lam (伍燦林)	69	23 June 2017	23 June 2017	Non-executive Director	Responsible for marketing for our Group	Nil
Mr. To King Yan, Adam (杜景仁)	57	24 November 2017	24 November 2017	Independent non-executive Director	Responsible for supervising and providing independent advices to our Board	Nil
Dr. Yeung Ngai Man, John (楊毅敏)	52	24 November 2017	24 November 2017	Independent non-executive Director	Responsible for supervising and providing independent advices to our Board	Nil
Mr. Sung Alfred Lee Ming (宋理明)	59	24 November 2017	24 November 2017	Independent non-executive Director	Responsible for supervising and providing independent advices to our Board	Nil



## DIRECTORS AND SENIOR MANAGEMENT

### Members of our senior management

Name	Age	Date of joining our Group	Date of appointment as senior management	Existing position(s) in our Group	Roles and Responsibilities	Relationship with other Directors and senior management
Mr. She Siu Ming (佘少明)	58	25 March 2002	9 September 2009	Deputy general manager of Guangzhou Xinhua	Responsible for management of the business operations of Guangzhou Xinhua and internal control	Nil
Ms. Liu Jinghui (劉敬慧)	43	1 August 1994	3 August 2009	Financial Controller of Guangzhou Xinhua	Responsible for financial control of our PRC arm	Nil
Mr. Lui Hak Kong (呂克剛)	52	1 June 1996	1 June 2000	Production manager of Guangzhou Xinhua	Responsible for production management and quality control	Nil
Mr. Wong Pak Yip (黃百業)	50	1 July 1990	14 June 1999	Sales manager of Guangzhou Xinhua	Responsible for sales and marketing department	Nil

### Executive Directors

**Mr. Wong Kwok Wai, Albert**, aged 58, was appointed as our Director and chairman of our Board on 18 August 2016 and was re-designated as our executive Director on 23 June 2017. Mr. Wong is also our chief executive officer and a director of each of our subsidiaries. Mr. Wong joined us in October 2008 and is primarily responsible for the management and overall strategic planning and development of our Group. Mr. Wong has over 30 years of experience in accounting and assurances. Prior to joining our Group, Mr. Wong served various positions at Chu and Chu CPA, an accounting firm, from June 1986 to December 2015 and last served as a partner where he was primarily responsible for management of the operations. Since December 2009, he has been serving as the managing director of Yong Zheng CPA Limited, an accounting firm, where he was primarily responsible for overseeing the audit works. Mr. Wong was also a director of Armago Company Limited which was incorporated in Hong Kong and was dissolved by deregistration by the Registrar of Companies of Hong Kong pursuant to section 291AA of the predecessor Companies Ordinance (Chapter 32) on 8 December 2006, following the deregistration application made voluntarily by the Company in July 2006. Armago Company Limited was engaged in the trading of garment, and prior to the dissolution, ceased to carry on any business for more than three months immediately before the application for its dissolution dated 19 July 2006. Mr. Wong confirmed that, as at the Latest Practicable Date, no claims had been made against him and he was not aware of any threatened and potential claims made against him as a result of its dissolution. Mr. Wong also confirmed that Armago Company Limited was solvent at the time of its dissolution.

Mr. Wong has been serving on the Panel B of the disciplinary panel of the Hong Kong Institute of Certified Public Accountants since February 2005 and previously served on various committees, including administration and finance committee, china affairs committee, disciplinary panel, ethics committee, legal committee and taxation committee. Mr. Wong has been a honorary life member of the Hong Kong Institute of Accredited Accounting Technicians Limited since June 1999 and was its president during the period from May 1995 to June 1998.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Wong was admitted as a fellow of the Hong Kong Institute of Certified Public Accountants and as an associate of the Institute of Chartered Accountants in England and Wales in November 1992 and February 2008, respectively. Mr. Wong received his higher diploma in accountancy from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in November 1982.

**Mr. Lee Wing Hong**, aged 42, was appointed as our executive Director on 23 June 2017. Mr. Lee is also the chief financial officer of our Company. Mr. Lee joined us in June 2017 and is primarily responsible for financial management and control of our Group. Mr. Lee has over 15 years of experience in accounting and auditing. From 29 March 2000 to 15 January 2005, Mr. Lee was employed by Nexia Charles Mar Fan & Co with his last position as Audit Senior, after which Mr. Lee worked with RSM Nelson Wheeler from 17 January 2005 to 4 December 2006 as Audit Senior. From 2 May 2007 to 31 May 2017, Mr. Lee was employed by Alfred Sung & Co. in charge of the audit department.

Mr. Lee was admitted as a member of the Hong Kong Institute of Certified Public Accountants in March 2006. He was also admitted as an associate member of the Association of International Accountants in November 2005. Mr. Lee received an Honours Diploma in Accounting from Hong Kong Shue Yan College (now known as the Hong Kong Shue Yan University) in March 2000.

### **Non-executive Director**

**Mr. Ng Chan Lam**, aged 69, was appointed as our non-executive Director on 23 June 2017. Mr. Ng is primarily responsible for marketing affairs. Prior to joining our Group, Mr. Ng served various positions at Dickson Concepts (International) Limited (Stock Code: 113) from July 1988 to December 2015, a company listed on the Main Board of the Stock Exchange in the industry of textiles, clothing and personal care principally engaged in sale of luxury goods, where he last served as an executive director and was primarily responsible for the management of the operations. Prior to joining Dickson Concepts (International) Limited, Mr. Ng worked as manager in marketing for several companies. In consideration of Mr. Ng's abundant experience working as a director of Dickson Concepts (International) Limited, our Directors believe that Mr. Ng would bring in business opportunities from the textiles industry for the future business development of our Company and advise our Company on the corporate governance compliance requirements of listed companies. In order to pursue other interests, Mr. Ng intended to join our Company as a non-executive Director.

Mr. Ng was also a director of Ining Investments Limited which was incorporated in Hong Kong and was dissolved by deregistration by the Registrar of Companies of Hong Kong pursuant to section 291AA of the predecessor Companies Ordinance (Chapter 32) on 8 August 2014. Ining Investments Limited was an investment holding company, and prior to the dissolution, ceased to carry on any business for more than three months immediately before the application for its deregistration voluntarily made by the Company in March 2014, pursuant to section 750 of the Companies Ordinance. Mr. Ng confirmed that, as at the Latest Practicable Date, no claims had been made against him and he was not aware of any threatened and potential claims made against him as a result of its deregistration. Mr. Ng confirms that Ining Investments Limited was solvent at the time of its dissolution.

Mr. Ng received his bachelor's degree in commerce, majoring in management, from Concordia University in Canada in June 1976.

## DIRECTORS AND SENIOR MANAGEMENT

### Independent non-executive Directors

**Mr. To King Yan, Adam**, aged 57, was appointed as our independent non-executive Director on 24 November 2017. He has been serving as a partner of K.B. Chau & Co., Solicitors, since February 1989, a firm of solicitors in Hong Kong, with his practice focusing on conveyancing and litigation. Mr. To has been an independent non-executive Director of Rykadan Capital Limited (Stock Code: 2288) since August 2009, a company listed on the Main Board of the Stock Exchange which is principally engaged in corporate management services and is responsible for supervising and providing independent advice to the board of this company.

Mr. To was admitted as a solicitor of the Supreme High Court of Hong Kong in November 1986. Mr. To was admitted as a barrister of High Court of Australia and a solicitor of the Supreme Court of England and Wales in June 1990 and May 1990, respectively. Mr. To was appointed as a China Appointed Attesting Officer and the Civil Celebrant of Marriages in May 1996 and July 2011, respectively. Mr. To received his bachelor's degree in law from the University of London in August 1983.

**Dr. Yeung Ngai Man, John**, aged 52, was appointed as our independent non-executive Director on 24 November 2017. Dr. Yeung and Mr. Wong knew each other for more than five years as referred by a common friend.

Dr. Yeung received a bachelor's degree in medicine and a bachelor's degree in surgery from the University of Edinburgh in July 1988; a diploma in geriatric medicine from the Royal College of Physicians of London in July 1993; diploma in Child Health from the Royal Colleges of Physicians & Surgeons of Ireland in September 1993; and a diploma in genito-urinary medicine from the Society of Apothecaries of London in December 1999. He was elected to the membership of the Royal College of Physicians of the United Kingdom in July 1992 and the Hong Kong College of Physicians in January 1996.

Dr. Yeung accumulated a wealth of practical management and operation experience serving as a medical officer at Hong Kong Sanatorium & Hospital from November 1993 to June 2005 where he was primarily responsible for the management of medical and paediatric inpatients as well as the outpatient department. Subsequently, Dr. Yeung commenced his own medical practice in July 2005. Meanwhile, Dr. Yeung has been continuously developing his knowledge in business management where he obtained a diploma in marketing from the Chartered Institute of Marketing in June 1990 and a master of business and administration from Warwick Business School in September 1990. Our Directors believe that Dr. Yeung is competent with adequate management experience to serve as our independent non-executive Director.

Pursuant to Rule 5.01 of the GEM Listing Rules, to perform the duties as a director, Directors must, among others, act honestly and in good faith in the interests of the company as a whole and avoid actual and potential conflicts of interest and duty. Further, in accordance with the guidance stated in the Guide for Independent Non-executive Directors published by the Hong Kong Institute of Directors, as mentioned in note to Rule 5.01 of the GEM Listing Rules, "so long as he acts in good faith and with integrity a director will possess an independent frame of mind in addition to generally fulfilling his duty as a director". Being a registered medical practitioner for over 22 years, Dr. Yeung has been upholding the professional integrity of medical ethics, which emphasises the priority of this moral ideal over and above considerations of personal interests and private gains governed by the Code of Professional

## DIRECTORS AND SENIOR MANAGEMENT

Conduct for the Guidance of Registered Medical Practitioners issued by the Medical Council of Hong Kong. Dr. Yeung has been continuously pursuing professional development through lifelong learning in order to fulfil the duty of care to patients. Dr. Yeung satisfies the character, experience and integrity to be a director. Hence, on the basis of Dr. Yeung's high integrity in his profession, our Board is of the view that Dr. Yeung will be able to discharge the fiduciary duties and duties of skill, care and diligence for discharging the performance of his duties as a director as required by the GEM Listing Rules.

Being an independent non-executive Director, Dr. Yeung has satisfied the requirements under Rule 5.09 of the GEM Listing Rules, where Dr. Yeung does not and will not:

- (1) hold more than 1% of the number of issued Shares;
- (2) receive an interest in any securities of our Company as a gift, or by means of other financial assistance, from a core connected person or our Company itself;
- (3) be a director, partner or principal of a professional adviser which currently provides or has provided services, or is an employee of such professional adviser who is or has been involved in providing such services during the same period, to: (a) our Company, its holding company or any of their respective subsidiaries or core connected persons; or (b) any person who was a controlling shareholder or, where there was no controlling shareholder, any person who was the chief executive or a Director (other than an independent non-executive director), of the Company within one year immediately prior to the date of his appointment, or any of their close associates;
- (4) have any interest in any principal business activity of or is involved in any business dealings with our Company, its holding company or their respective subsidiaries or with any core connected persons of the issuer;
- (5) is on the board specifically to protect the interests of any entity whose interests are not the same as those of the shareholders as a whole;
- (6) be connected with any Director, the chief executive or a substantial shareholder of our Company within two years immediately prior to his appointment;
- (7) at any time during the two years immediately prior to the date of his appointment be an executive or a director (other than an independent non-executive director) of our Company, of its holding company or of any of their respective subsidiaries or of any core connected persons of our Company; and
- (8) be financially dependent on the Company, its holding company or any of their respective subsidiaries or core connected persons of the Company.

The qualifications of the independent non-executive Directors satisfy Rule 5.05 of the GEM Listing Rules where the independent non-executive Directors possess appropriate professional qualifications or accounting or related financial management expertise. Meanwhile, our Company continuously seeks to embrace a diversified composition of our Board taking into consideration a number of factors, including skills, regional and industry experience, background, race, gender and other qualities of our Directors. In respect of Dr. Yeung's appointment as one of our independent non-

## DIRECTORS AND SENIOR MANAGEMENT

executive Directors, our Directors believe that Dr. Yeung would bring in new management perspectives which are aligned with the policy of our Company, which is having our Board with the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and to enhance the effectiveness of our Board.

Dr. Yeung possesses an independent attitude with an independent frame of mind in addition to generally fulfilling his duty as a Director and he serves his duties owed to the members of the company as a whole and not a particular interest in good faith and with ultimate integrity.

Throughout his years of medical practices, Dr. Yeung established personal and professional connections with people in all walks of life, including people in or relating to our industry with expertise in various aspects. Other than Mr. Wong, Dr. Yeung is also acquainted with other industry figures, including but not limited to, the management of several modern urban denim and casual wear manufacturers in Hong Kong and in the PRC. In view of Dr. Yeung's high integrity, business management experience and connections with industry figures, our Directors believe the appointment of Dr. Yeung as an independent non-executive Director would bring in leverage to our Company for future business development and different perspectives in terms of our internal management.

**Mr. Sung Alfred Lee Ming**, aged 59, was appointed as our independent non-executive Director on 24 November 2017. Mr. Sung has over 30 years of experience in accounting, assurances, specialising in the industries of property management and information technology. Prior to joining our Group, Mr. Sung served as audit junior at Price Waterhouse (presently known as PricewaterhouseCooper) in Hong Kong from November 1983 to April 1985, as auditor at Deloitte Haskins & Sells (presently known as Deloitte Touche Tohmatsu) in Melbourne from July 1985 to March 1989, and as Manager at Coopers & Lybrand (presently known as PricewaterhouseCooper) in Hong Kong from May 1989 to May 1990, following which, he served as a partner of Sung Fung & Co from 1991 to 1996 and Sung Fung Tam & Co. from 1997 to 1998, both of them are accounting firm in Hong Kong. Since 1999 until now, Mr. Sung has been the sole proprietor of Alfred Sung & Co., primarily responsible for overseeing audit and taxation works.

On 26 June 2017, Mr. Sung was appointed as a director and he currently serves as an executive director of Modern Living Investments Holdings Limited (Stock Code: 8426), a company listed on GEM which is principally engaged in providing property management services including estate management services, security services and cleaning services. From April 2012 to October 2014, Mr. Sung served as an independent non-executive director of TC Orient Lighting Holdings Limited (Stock Code: 515), a company listed on the Main Board of the Stock Exchange which is principally engaged in manufacturing and trading of LED lighting, and singesided, doubled-sided and multi-layered printed circuit boards and was primarily responsible for supervising and providing independent advice to the board of this

## DIRECTORS AND SENIOR MANAGEMENT

company. Mr. Sung was also the director of the companies listed below, which were incorporated in Hong Kong and was dissolved by deregistration by the Registrar of Companies of Hong Kong pursuant to section 291AA of the predecessor Companies Ordinance (Chapter 32) or section 751 of the Companies Ordinance (as the case may be):

Name of companies	Principal business activity three (3) months immediately before application for dissolutions	Date of application for dissolution	Date of dissolution	Reason for the dissolutions
Diamond Towers Limited	Trading	9 September 2010	29 January 2010	Cessation of business
Austria Asia International Trading Limited	No business operations	5 November 2015	4 December 2015	No business operations commenced since its incorporation
Sino Tender Limited (中濠有限公司)	Holding of properties	13 August 2009	31 December 2009	Cessation of business
Wise Richly Limited (緯萬有限公司)	Holding of properties	21 January 2009	5 June 2009	Cessation of business
Tyin Group Holdings Limited	No business operations	9 May 2016	23 September 2016	No business operations commenced since its incorporation
Loovee Holdings Limited (樂唯控股有限公司)	No business operations	8 June 2016	21 October 2016	No business operations commenced since its incorporation

Mr. Sung confirmed that, as at the Latest Practicable Date, no claims had been made against him and he was not aware of any threatened and potential claims made against him as a result of the dissolutions of the above dissolved companies. Mr. Sung also confirmed that all of the above dissolved companies were solvent at the time of their dissolutions.

Mr. Sung was admitted as a member and fellow of the Hong Kong Institute of Certified Public Accountants in December 1987 and February 1995, respectively. Besides he was also admitted as a fellow of the Taxation Institute of Australia in November 1987. He was also admitted as an associate of CPA Australia and Chartered Accountants Australia and New Zealand in March 1986 and April 1989, respectively. Mr. Sung received his bachelor of economics from La Trobe University in Australia in March 1984.

### SENIOR MANAGEMENT

**Mr. She Siu Ming**, aged 58, is the director and deputy general manager of Guangzhou Xinhua. Mr. She joined our Group in March 2002 and is primarily responsible for management of the business operations of Guangzhou Xinhua and internal control of our Group. From July 1994 to December 1998,

## DIRECTORS AND SENIOR MANAGEMENT

Mr. She served as finance manager of The New China Hong Kong Group Limited, a company primarily engaged in investment in the PRC industrial projects, property and infrastructure development, securities and corporate finance business, where he was primarily responsible for corporate finance arrangement, merger and acquisitions exercise and review of the financial reports. From December 1990 to July 1994, Mr. She served as an accounting manager of Excelsior Sport Limited, which was engaged in garment apparels prior to its dissolution in January 2001, where he was primarily responsible for financial management, financing arrangement and financial reporting.

Mr. She was admitted as a fellow of the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) in February 1997. Mr. She received his bachelor of business administration from the Chinese University of Hong Kong in December 1983.

**Ms. Liu Jinghui**, aged 43, is the financial controller of Guangzhou Xinhua. Ms. Liu joined our Group in August 1994 and is primarily responsible for the financial control. Ms. Liu obtained her qualification as a registered tax adviser granted by Department of Personnel of the Guangdong Province (廣東省人事廳) in October 2004. Ms. Liu received her associate degree in polymer chemical engineering from the South China University of Technology (華南理工大學) in China in July 1994.

**Mr. Lui Hak Kong**, aged 52, is the production manager of Guangzhou Xinhua. Mr. Lui joined our Group in June 1996 and is primarily responsible for the production management and quality control. Prior to joining our Group, Mr. Lui served as the laboratory and quality control in-charge of Dik Sun Dyeing Factory Ltd., a dyeing factory, from June 1990 to April 1996, where he was primarily responsible for the quality control. From June 1983 to March 1990, Mr. Lui served as the merchandiser and the site leader of Fang Brothers Knitting Limited, a kitting company, where he was primarily responsible for merchandising and site management.

**Mr. Wong Pak Yip**, aged 50, is the sales manager of Guangzhou Xinhua. Mr. Wong joined our Group in July 1990 and is primarily responsible for sales and marketing of our Group. Prior to joining our Group, Mr. Wong served as a sales assistant in the woven sales division of Unimix Limited, a garment manufacturing and trading company, from August 1988 to May 1990, where he was primarily responsible for sales of woven. From August 1986 to July 1988, Mr. Wong served as merchandiser of Sun Hop Kee Garment Factory, a garment production company, where he was primarily responsible for merchandising. Mr. Wong completed a post-secondary five course at Sha Tin Technical Institute (now known as Hong Kong Institute of Vocational Education (Sha Tin)), majoring in retail supervision, in July 1997.

None of our senior management members has been a director of any other listed companies during the three years immediately preceding the date of this prospectus.

### COMPANY SECRETARY

**Mr. Chan Yiu Tung, Enoch**, aged 50, is the company secretary of our Company and was appointed on 18 August 2016. Mr. Chan has extensive experience in advising companies operating in China, assisting companies in tax and business compliance matters. Mr. Chan served as a partner in tax department of Guangzhou Branch of Grant Thornton, an international accounting firm, from October 2012 to October 2015, where he was primarily responsible for developing the tax practice in Guangzhou. From June 2006 to December 2011, Mr. Chan served as an executive director of the tax department of Ernst & Young, an international accounting firm, where he was primarily responsible for providing

## DIRECTORS AND SENIOR MANAGEMENT

China tax and business advisory services to both international and domestic companies operating in the PRC. Mr. Chan has been serving as an independent director of Natural Health Trends Corp. (Stock Code: NHTC), an international direct-selling and e-commerce company listed on the NASDAQ Stock Market LLC, since December 2015, and is responsible for supervising and providing independent advice to the board of this company.

Mr. Chan received his bachelor's degree of art in accountancy from City University of Hong Kong in November 1992 and was admitted as a member of the Hong Kong Institute of Certified Public Accountants in February 1997 and a fellow of the Association of Chartered Certified Accountants in April 2001, respectively.

### COMPLIANCE OFFICER

Mr. Chan Yiu Tung, Enoch, our company secretary, was appointed as the compliance officer of our Company on 23 June 2017. Please refer to the paragraph headed "Company Secretary" above in this section for the biographical details of Mr. Chan Yiu Tung, Enoch.

### BOARD COMMITTEES

#### Audit committee

We have established an audit committee on 24 November 2017 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and paragraph C3.3 of the Corporate Governance Code. The audit committee consists of three members Mr. Sung Alfred Lee Ming, Dr. Yeung Ngai Man, John and Mr. To King Yan, Adam, all are independent non-executive Directors. The audit committee is chaired by Mr. Sung Alfred Lee Ming. The primary duties of the audit committee are to assist our Board in providing an independent view of the effectiveness of the financial reporting process, risk management and internal control systems of our Group, to oversee the audit process, to develop and review our policies and to perform other duties and responsibilities as assigned by our Board.

#### Remuneration committee

We have established a remuneration committee on 24 November 2017 with written terms of reference in compliance with Rule 5.34 of the GEM Listing Rules and paragraph B1.2 of the Corporate Governance Code. The remuneration committee consists of three members, whom are independent non-executive Directors, being Dr. Yeung Ngai Man, John, Mr. Sung Alfred Lee Ming and Mr. To King Yan, Adam. The remuneration committee is chaired by Dr. Yeung Ngai Man, John. The primary duties of the remuneration committee include (but without limitation): (a) making recommendations to the Directors regarding our policy and structure for the remuneration of all our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (b) making recommendations to our Board on the remuneration packages of our Directors and senior management; (c) reviewing and approving the management's remuneration proposals with reference to our Board's corporate goals and objectives; and (d) considering and approving the grant of share options to eligible participants pursuant to the Share Option Scheme.

During the Track Record Period, our remuneration policy for our Directors and senior management members was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the profit performance of our Group and the



## DIRECTORS AND SENIOR MANAGEMENT

individual performance of our Directors and senior management members. We intend to adopt the same remuneration policy after the Listing, subject to review by and the recommendations of our remuneration committee.

### **Nomination committee**

We have established a nomination committee on 24 November 2017 with written terms of reference in compliance with paragraph A.5.2 of the Corporate Governance Code. The nomination committee consists of three members, two of whom are independent non-executive Directors being Mr. To King Yan, Adam and Mr. Sung Alfred Lee Ming, and one of whom is an executive Director and the chairman of our Board, being Mr. Wong Kwok Wai Albert. The nomination committee is chaired by Mr. Wong Kwok Wai Albert. The primary duties of the nomination committee are to identify individuals suitably qualified to become Board members and select, or make recommendations to our Board on the selection of, individuals nominated for directorships.

### **CORPORATE GOVERNANCE**

Our Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of our Group so as to achieve effective accountability.

Our Company has adopted the code provisions stated in the Corporate Governance Code. Our Company is committed to the view that our Board should include a balanced composition of executive, non-executive and independent non-executive Directors so that there is a strong independent element on our Board, which can effectively exercise independent judgment.

Except for the deviation from code provision A.2.1 of the Corporate Governance Code, our Company's corporate governance practices have complied with the Corporate Governance Code. Code provision A.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Wong is the chairman and the chief executive officer of our Company. Mr. Wong has been comprehensively involved in the daily operations and management of our Group since October 2008. Considering Mr. Wong's in-depth knowledge of our Group, our Board believes that vesting the roles of both chairman and chief executive officer of our Company in Mr. Wong can ensure strong and consistent leadership, facilitate the execution of our Group's business strategies and boost the effectiveness of its operation. Although Mr. Wong performs the roles of chairman and chief executive officer, the responsibilities of the chairman and chief executive officer are clearly divided and established. Generally, the chairman provides leadership and governance to our Board to ensure that the Board operates efficiently and that all key and appropriate issues of our Company are discussed by the Board in a timely manner. The role of the chief executive officer is responsible for leading the management in the daily running of the Group's business in accordance with the business plans and within the budgets approved by the Board. Thus these two roles are performed by Mr. Wong distinctly. With a holistic view of the strategic planning of our Board, our Board believes that Mr. Wong promotes an efficient development and implementation of the Group's strategies. Therefore, our Directors consider that the deviation from the code provision A.2.1 of the Corporate Governance Code is appropriate in such circumstance. Our Directors consider that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively, given the appropriate delegation of the power of our Board and the effective functions of our Directors. Our Board recognises

## **DIRECTORS AND SENIOR MANAGEMENT**

that good corporate governance practices are essential. Mr. Wong confirms that he is aware of the distinct requirements involved in acting as chairman and chief executive officer and believes that his understanding of his responsibilities of such distinct roles will help maintain the balance of power of our Board. Under the supervision of our Board comprising two executive Directors, one non-executive Director and three independent non-executive Directors, our Board is therefore appropriately structured to maintain the balance of power to provide sufficient checks to protect the interests of our Company and our shareholders as a whole. Meanwhile, our Directors will continue to review and consider splitting the roles of chairman and chief executive officer of our Company, and our Company will make proper and timely disclosure when such candidate is appointed.

Our Directors are aware that upon Listing, we are expected to comply with such code provision. Any such deviation shall however be carefully considered, and the reasons for such deviation shall be given in the interim report and the annual report in respect of the relevant period. We are committed to achieving high standards of corporate governance with a view to safeguarding the interests of our Shareholders as a whole. Save as disclosed in the above, we will comply with the code provisions set out in the Corporate Governance Code after the Listing.

Our Company sees diversity as a wide concept and believes that a diversity of perspectives can be achieved through consideration of a number of factors, including gender, age, cultural and educational background or professional experience. In forming its perspective on diversity, our Company took into account factors based on our business model and specific needs from time to time. Our Board consists of members with diverse backgrounds in terms of ages, nationalities, education, professional experience and other attributes. By utilising their extensive experience in their respective fields, such as accounting, finance, marketing (Luxury retail), legal and medical fields, our Directors assist with the determination of important management matters and oversee business execution. Our Company endeavours to ensure that our Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of our business strategy and to maximise our Board's effectiveness. In view of the above, our Company's corporate governance practices have complied with the Corporate Governance Code in terms of the requirement of the diversity of the Board to ensure there are sufficient checks and balances in place.

## **COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT**

Our Directors and senior management, who are also our employees, receive, in their capacity as our employees, compensation in the form of salary, cash bonus and other allowances.

For the two years ended 31 December 2016, the aggregate amounts of remuneration including fees, salaries, contributions to pension schemes, housing allowances and other allowances, benefits in kind and discretionary bonuses which were paid by our Group to our Directors were both approximately HK\$0.6 million.

For the two years ended 31 December 2016, the aggregate amounts of remuneration including fees, salaries, contributions to pension schemes, housing allowances and other allowances, benefits in kind and discretionary bonuses which were paid by our Group to our five highest paid individuals were approximately HK\$2.1 million and HK\$2.0 million, respectively.

## **DIRECTORS AND SENIOR MANAGEMENT**

No remuneration was paid by our Group to our Directors or past directors or the five highest paid individuals as an inducement to join or upon joining our Group in respect of the two years ended 31 December 2016. Further, none of our Directors waived any remuneration during the same periods.

Under our arrangements currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind) of our Directors for the year ending 31 December 2017 is estimated to be no more than HK\$2 million.

### **SHARE OPTION SCHEME**

We have conditionally adopted the Share Option Scheme on 24 November 2017. For details of the Share Option Scheme, please refer to the section headed “Statutory and General Information — D. Other Information — 1. Share Option Scheme” in Appendix IV to this prospectus.

### **COMPLIANCE ADVISER**

We have appointed Huabang Corporate Finance Limited as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.19 of the GEM Listing Rules, the compliance adviser will advise us in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate (if any) or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our listed securities under Rule 17.11 of the GEM Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date which we distribute our annual report of our financial results for the second full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

## SHARE CAPITAL

The following is a description of the authorised share capital as at the Latest Practicable Date and the issued share capital of our Company (including Shares in issue and to be issued as fully paid or credited as fully paid) immediately following the completion of the Share Offer and the Capitalisation Issue (assuming the Offer Size Adjustment Option is not exercised and taking no account of any Shares that may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme):

	<b>Nominal Value</b> <i>HK\$</i>
<b>Authorised share capital:</b>	
<u>5,000,000,000</u> Shares of HK\$0.01 each	<u>50,000,000</u>
	<b>Nominal Value</b> <i>HK\$</i>
<b>Issued and to be issued, fully paid or credited as fully paid:</b>	
1 Share of HK\$0.01 each	0.01
599,999,999 Shares to be issued pursuant to the Capitalisation Issue	5,999,999.99
<u>200,000,000</u> Shares to be issued pursuant to the Share Offer	<u>2,000,000.00</u>
 <u>800,000,000</u> Total	 <u>8,000,000.00</u>

### ASSUMPTIONS

The above table assumes that the Share Offer becomes unconditional and the issue of Offer Shares pursuant to the Share Offer and the Capitalisation Issue are made. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option, the options may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

### RANKINGS

The Offer Shares will be ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all Shares in issue or to be issued as mentioned in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus save for the entitlement under the Capitalisation Issue.

### MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, the Company must maintain the minimum prescribed percentage of 25% of the issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules).

## SHARE CAPITAL

### GENERAL MANDATE TO ALLOT AND ISSUE NEW SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general mandate to allot, issue and deal with Shares in the share capital of our Company with an aggregate number of such Shares not exceeding:

- (1) 20% of the total number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (assuming the Offer Size Adjustment Option is not exercised and taking no account of any Shares that may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme); and
- (2) the total number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares granted to our Directors referred to below.

Our Directors may, in addition to the Shares which they are authorised to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of the Offer Size Adjustment Option, any option which may be granted under the Share Option Scheme.

This general mandate to issue Shares will remain in effect until the earliest of:

- (i) the conclusion of our Company's next annual general meeting; or
- (ii) the expiry of the period within which our Company is required by any applicable laws or its articles of association to hold its next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholder(s) in general meeting.

Further information on this general mandate is set out in the section headed "Statutory and General Information — A. Further Information about our Group — 3. Resolutions in writing of our sole Shareholder passed on 24 November 2017" in Appendix IV to this prospectus.

### GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with an aggregate number of such Shares not exceeding 10% of the total number of Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option, any options may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange or any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the section headed "Statutory and General Information — A. Further Information about our Group — 6. Repurchases of our Shares" in Appendix IV to this prospectus.

## **SHARE CAPITAL**

This general mandate to repurchase Shares will remain in effect until the earliest of:

- (i) the conclusion of our Company's next annual general meeting; or
- (ii) the expiry of the period within which our Company is required by any applicable laws or its articles of association to hold its next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholder(s) in general meeting.

Further information on this general mandate is set out in the section headed "Statutory and General Information — A. Further Information about our Group — 3. Resolutions in writing of our sole Shareholder passed on 24 November 2017" in Appendix IV to this prospectus.

### **SHARE OPTION SCHEME**

Pursuant to the written resolutions of the sole Shareholder dated 24 November 2017, we conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in the section headed "Statutory and General Information — D. Other Information — 1. Share Option Scheme" in Appendix IV to this prospectus.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other shares.

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary shareholders' resolution (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may, subject to the provisions of the Companies Law, reduce or redeem its share capital by shareholders' special resolution. For more details, please see the section headed "Summary of the Constitution of the Company and Cayman Islands Company Law — 2. Articles of Association — (a) Shares — (iii) Alteration of capital" in Appendix III to this prospectus.

Pursuant to the Companies Law and the terms of the Memorandum and the Articles, all or any of the special rights attached to the Share or any class of Shares may be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For more details, please see the section headed "Summary of the Constitution of the Company and Cayman Islands Company Law — 2. Articles of Association — (a) Shares — (ii) Variation of rights of existing shares or classes of shares" in Appendix III to this prospectus.

## FINANCIAL INFORMATION

### FINANCIAL INFORMATION

#### Selected financial information

The selected combined statements of profit or loss and other comprehensive income, statements of financial position and cash flow information for each of the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017 set forth below are extracted from our combined financial statements included in the Accountants' Report set out in Appendix I to this prospectus.

The table below sets forth our selected combined statements of profit and loss and other comprehensive income for each of the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017:

	<b>Year ended 31 December</b>		<b>Five months ended 31 May</b>	
	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)			
Revenue	82,829	72,624	25,446	26,105
Cost of sales	<u>(56,558)</u>	<u>(45,617)</u>	<u>(16,971)</u>	<u>(16,785)</u>
<b>Gross profit</b>	26,271	27,007	8,475	9,320
Other income and gains	678	1,515	279	57
Selling and distribution expenses	(7,668)	(6,952)	(2,709)	(2,358)
Administrative expenses	(8,195)	(7,752)	(2,982)	(3,366)
Other expenses	(1,317)	(10,303)	(3,281)	(4,763)
<b>Operating profit/(loss)</b>	9,769	3,515	(218)	(1,110)
Finance costs	<u>(3,238)</u>	<u>(2,892)</u>	<u>(1,311)</u>	<u>(1,001)</u>
<b>Profit/(loss) before income tax</b>	6,531	623	(1,529)	(2,111)
Income tax expense	<u>(1,853)</u>	<u>(1,100)</u>	<u>(203)</u>	<u>(360)</u>
<b>Profit/(loss) for the year/period</b>	4,678	(477)	(1,732)	(2,471)
Other comprehensive income/(loss)	<u>(3,915)</u>	<u>(5,549)</u>	<u>(1,756)</u>	<u>1,255</u>
Total comprehensive income/(loss) for the year/period	<u><u>763</u></u>	<u><u>(6,026)</u></u>	<u><u>(3,488)</u></u>	<u><u>(1,216)</u></u>

## FINANCIAL INFORMATION

The table below sets forth our selected combined statements of financial position as at 31 December 2015, 31 December 2016 and 31 May 2017:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>31 May</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	<u>19,512</u>	<u>13,255</u>	<u>13,003</u>
Current assets	130,231	105,079	114,577
Current liabilities	<u>(79,961)</u>	<u>(55,238)</u>	<u>(65,698)</u>
Net current assets	50,270	49,841	48,879
Non-current liabilities	<u>(2,371)</u>	<u>(1,711)</u>	<u>(1,713)</u>
Net assets	<u><u>67,411</u></u>	<u><u>61,385</u></u>	<u><u>60,169</u></u>

The table below sets forth our selected cash flow information for each of the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017:

	<b>Year ended 31 December</b>		<b>Five months ended 31 May</b>	
	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from/(used in) operating activities	16,188	3,734	(6,486)	3,869
Net cash generated from/(used in) investing activities	(22,154)	19,512	9,285	(6,314)
Net cash generated from/(used in) financing activities	8,726	(23,099)	(4,914)	(964)
Net increase/(decrease) in cash and cash equivalents	<u><u>2,760</u></u>	<u><u>147</u></u>	<u><u>(2,115)</u></u>	<u><u>(3,409)</u></u>



## FINANCIAL INFORMATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Overview

We principally engage in the manufacturing and selling of sewing threads. During the Track Record Period, we mainly sell 100% spun polyester sewing threads. We also offer other types of sewing threads, namely, textured polyester series, elastic filament sewing thread series and weft yarn. Our products are manufactured in our Guangzhou Production Facilities in Liwan, Guangzhou and sold in the PRC, Hong Kong and overseas countries including UAE, Mauritius, Australia, Germany and the U.K.

Our Group recorded revenues of approximately HK\$82.8 million, HK\$72.6 million, HK\$25.4 million and HK\$26.1 million for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017. Our Group's revenue was predominantly derived from the sales of polyester sewing thread products, which amounted to approximately 87.7%, 89.9%, 88.4% and 90.2% of our total revenue for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, respectively.

During the Track Record Period, our sales in the PRC accounted for majority of our total revenue. For the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, our sales in the PRC accounted for approximately 58.5%, 53.3%, 60.0% and 49.8%, respectively, of our total revenue, whereas our sales to Hong Kong and overseas countries accounted for approximately 41.5%, 46.7%, 40.0% and 50.2%, respectively, of our total revenue.

#### Basis of Presentation

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Company Law (as revised) of the Cayman Islands on 18 August 2016. Through the Reorganisation as further explained in the section headed "History, Reorganisation and Corporate Structure" in this prospectus, on 22 June 2017, Our Company became the holding company of the subsidiaries now comprising our Group. The Companies now comprising the Group were controlled by Mr. Wong before and after the Reorganisation. Accordingly, our combined financial statements for the Track Record Period and the five months ended 31 May 2016 have been prepared on a combined basis by applying the principles of merger accounting, as if the reorganisation had been completed since 1 January 2015.

The combined statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of our Group for the two years ended 31 December 2016 and the five months ended 31 May 2016 and 2017 include the results and cash flows of all Companies now comprising the Group from the earliest date presented or since the date when the Controlling Shareholders' subsidiaries first came under the common control of Mr. Wong, where this is a shorter period. The combined statements of financial position of our Group as at 31 December 2015 and 2016 and 31 May 2017 have been prepared to present the assets and liabilities of the subsidiaries using the existing book values from the perspective of Mr. Wong. No adjustments are made to reflect their fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

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Equity interests in subsidiaries and/or businesses held by parties other than Mr. Wong and changes therein, prior to the Reorganisation, are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intercompany transactions and balances have been eliminated upon combination.

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and has been prepared under the historical cost convention, except for an available-for-sale investment and derivative financial instrument which have been measured at fair value. The Financial Information is presented in Hong Kong Dollars and all values are rounded to the nearest thousand except when otherwise indicated.

### **Factors affecting our results of operations and financial condition**

Our financial condition and results of operations have been, and will continue to be, affected by a number of factors, including those set out below, some of which are beyond our control.

#### *Economic conditions*

During the Track Record Period, we derived a substantial portion of revenue from the sales in the PRC, which accounted for approximately HK\$48.4 million, HK\$38.7 million, HK\$15.3 million and HK\$13.0 million, respectively, for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, representing approximately 58.5%, 53.3%, 60.0% and 49.8%, respectively, of our total revenue over the same period.

According to the CIC Report, the garment market in the PRC had shown a stable growth, the sales volume grew rapidly from 25,400.0 million pieces in 2011 to 31,452.0 million pieces in 2016, with a CAGR of approximately 4.4% between 2011 and 2016. In the foreseeable future, the garment production volume growth will be driven by sustaining garment consumption. As an essential part of garment products, sewing thread is expected to experience further growth as well.

Our main customers consist of downstream garment manufacturers and wholesalers based in the PRC, Hong Kong and overseas countries including UAE, Mauritius, Australia, Germany and the U.K. Thus, consumer demand of those garment products in the abovementioned countries is one of the significant drivers of our revenue. 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. Any slow down or decline in economic conditions in these regions, may adversely affect consumer demand and our customers’ demand for our products and therefore negatively affect our business, financial condition and results of operations.

## FINANCIAL INFORMATION

### *Pricing of our products*

Changes in the prices and product mix of our products sold to customers affect our financial position and operation results. Our major product for sale is 100% spun polyester sewing threads, we also offer other types of sewing threads, namely, textured polyester sewing threads, elastic filament sewing threads, and weft yarn. They have different gross profit margins, levels of demand and corresponding selling prices. The average selling price of our 100% spun polyester sewing threads was approximately HK\$1.83 per km, HK\$1.89 per km and HK\$1.84 per km for the two years ended 31 December 2016 and the five months ended 31 May 2017. For details, please refer to the paragraph headed “Gross profit and gross profit margin” in this section. 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.

### *Relationship with our major customers*

For the two years ended 31 December 2016 and the five months ended 31 May 2017, the sales to our five largest customers in aggregate accounted for approximately 39.7%, 43.3% and 49.1% of our total revenue, and sales to our largest customer, accounted for approximately 26.8%, 28.3% and 32.0% of our total revenue, respectively. We have not entered into any long-term sales contract with our five largest customers. If we are unsuccessful in maintaining business relationship with these major customers and we are unable to secure new customers to recover such loss of revenue, our business, financial conditions and result of operations may be adversely affected.

### *Seasonality*

There is seasonal fluctuation in our sales. We generally record lower revenue in the months of January and February as a majority of our customers, being garment manufacturers in the PRC, temporarily suspend their operations during the Chinese New Year holidays. Revenue generated in the second half of the year accounted for approximately 52.1% and 56.0% of our total revenue for the two years ended 31 December 2016, respectively.

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.

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### *Fluctuation in Cost of Sales*

Our major cost of sales includes: (i) direct material costs; (ii) processing fees; and (iii) direct labour costs. These cost of sale components in aggregate accounted for approximately 74.3%, 79.0%, 75.1% and 82.1% of the total cost of sales for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, respectively, whereas direct material costs constituted the largest component of our cost of sales, amounting to approximately 45.0%, 46.7%, 47.4% and 48.8% of our total cost of sales. Our primary raw materials used for production of our sewing threads are fibre and yarn. We purchase fibre from Supplier A, a state-owned enterprise. For the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, the total consumption of fibre accounted for approximately 35.2%, 24.2%, 23.8% and 29.5%, respectively, of our total direct material costs. Our average unit purchase price for fibre, being our major raw material for the production of sewing threads, was approximately RMB7,775 per tonne, RMB7,344 per tonne and RMB8,247 per tonne for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

We also purchase yarn from our yarn suppliers for the manufacturing of our sewing threads. The selling price of yarn may vary with their procurement cost of fibre. For the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, the total consumption of yarn accounted for approximately 28.4%, 42.5%, 43.4% and 34.1%, respectively, of our total direct material costs. Our average unit purchase price for yarn, being also our major raw material, was approximately RMB16.8 per kg, RMB15.3 per kg and RMB17.4 per kg for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

Our profitability therefore relies heavily on our ability to control and manage our direct material costs. Any fluctuations in the direct material costs will have an impact on our profitability. Our principal raw materials for production of sewing threads, being fibres and yarns, may experience price fluctuation due to various factors such as price of crude oil, demand for fibres and yarns, relevant PRC government policies and labour costs, most of which are beyond our control. We generally purchase fibre and yarn at prevailing market prices, and thus, our profitability is dependent on our ability to secure a sufficient and constant supply of fibre and yarn at a reasonable price level.

While we generally do not use long-term purchase contracts to limit our exposure to fluctuations in the prices of our raw materials, nor is there any price adjustment clause where our customers will compensate us for unexpected increase in the prices of raw materials after placing the purchase orders. We try to manage the impact of such fluctuations on our profitability through adjustments to the unit selling prices of our products from time to time according to prevailing market prices of sewing thread products and movements in our raw material costs, with a view to passing to our customers to an extent that it is commercially practicable. Please refer to the section headed “Risk Factors — Risks Relating to Our Business and Industry — Fluctuations of raw material prices may adversely affect our profitability” of this prospectus. During the Track Record Period, we did not engage in any hedging activities or enter into any future contract to manage price fluctuations of our raw materials, including the price of fibre and yarn.

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The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our Group's direct material costs on our Group's profits during the Track Record Period. The hypothetical fluctuation rates are set at 5% and 10% which are considered reasonable for the purpose of this sensitivity analysis:

### Hypothetical fluctuations

Material costs increase/ (decrease) in percentage	Year ended 31 December				Five months ended 31 May			
	2015		2016		2016		2017	
	Increase/ (decrease) in profit before tax HK\$'000	Percentage increase/ (decrease) to profit before tax %	Increase/ (decrease) in profit before tax HK\$'000	Percentage increase/ (decrease) to profit before tax %	Increase/ (decrease) in loss before tax HK\$'000	Percentage increase/ (decrease) to loss before tax %	Increase/ (decrease) in loss before tax HK\$'000	Percentage increase/ (decrease) to loss before tax %
5%	(1,272)	(19.5)	(1,065)	(170.9)	402	26.3	410	19.4
(5%)	1,272	19.5	1,065	170.9	(402)	(26.3)	(410)	(19.4)
10%	(2,543)	(38.9)	(2,129)	(341.7)	804	52.6	820	38.8
(10%)	2,543	38.9	2,129	341.7	(804)	(52.6)	(820)	(38.8)

### Direct labour costs

The manufacture of sewing threads is labour-intensive, and one of our main cost items is staff costs which directly affects our financial performance. Our direct labour costs, which primarily comprise salaries, bonuses and employee benefit expenses, were approximately HK\$6.9 million, HK\$4.2 million, HK\$2.0 million and HK\$1.1 million for the two years ended 31 December 2016 and the five months ended 31 May 2016 and 2017, respectively, accounting for approximately 12.2%, 9.2%, 11.9% and 6.4% of our total cost of sales, respectively, over the same period.

As our sewing threads are manufactured in the PRC, we have high demand for skilled workers for sewing thread production. Any failure to identify and recruit replacement immediately following the unexpected loss of skilled workers would reduce our competitiveness and have an adverse effect on our business and operations.

Labour costs may be affected by the demand for and supply of labour and other factors such as the rate of inflation and government policy towards minimum wages. According to the CIC Report, there will be continued increase in the average annual wage in Guangdong. Notwithstanding that we pay our workers at or above the minimum wage stipulated by applicable laws and regulations in the PRC, any further increase in minimum wage requirements may increase competition for skilled workers, which may indirectly result in further increases to our labour costs. In case we fail to pass on all or part of such increases labour costs to our customers, our business, financial condition and results of operations may be adversely affected.

## FINANCIAL INFORMATION

### *Competition*

According to the CIC report, we are the sixth largest manufacturer of sewing thread in Guangdong province, having 1.4% of market share of Guangdong province in terms of production value in 2016. Our Directors believe that our success depends on, amongst others, our ability to compete effectively against our competitors on price, product quality, customer service and lead time in production.

However, according to the CIC Report, Guangdong's sewing thread market is a relatively competitive market with the top 10 participants collectively accounting for 41.3% market share in terms of production value in Guangdong in 2016. There is no assurance that our competitors would not match our competitive edge as stated above. We may be required to adjust our pricing strategy or increase capital expenditure to maintain our competitiveness in light of the competition from existing and potential manufacturers of sewing thread, which may negatively affect our financial results.

### *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 their 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 2015 and 2016 and 31 May 2017, we had bank borrowings of HK\$58.3 million, HK\$36.9 million and HK\$40.6 million, respectively. During the Track Record Period, the effective interest rates on our borrowings ranged from 2.5% to 8.5%. Any increase in our finance costs would have a negative impact on our financial results and results of operations.

### *Foreign exchange fluctuation*

The presentation currency of the Group is Hong Kong dollars and the functional currencies of our Hong Kong and PRC subsidiaries are Hong Kong dollars and Renminbi, respectively. Most of our sales, purchase and production were carried out by our PRC subsidiary and the relevant revenue and costs were incurred in Renminbi. As at the end of each period of the Track Record Period, the assets and liabilities of our PRC subsidiary are translated into the Hong Kong dollars at the exchange rates prevailing at the end of each respective period and its statement of profit or loss is translated into the Hong Kong dollars at the weighted average exchange rates for the year. As such our results of operations are sensitive to changes in foreign currency exchange rates.

### *Taxation*

Our profitability and financial performance is affected by the level of taxation that we pay on our profit. Our business activities are conducted through our operating subsidiaries in Hong Kong and the PRC, and thus, we are subject to profit tax of Hong Kong and enterprise income tax of the PRC, respectively. Any change in the Hong Kong tax policy or the PRC tax system will have an impact on the Group's profitability and financial position.

## FINANCIAL INFORMATION

### *Transfer pricing*

There are inter-company transactions and cross-border business arrangements in our ordinary course of business, under which Guangzhou Xinhua sold our products to Cheerful Keen and Newchamp Industries, which were then sold to Tseyu International, or directly to Tseyu International on a cost plus basis. Tseyu International in turn sold the products purchased from Newchamp Industries and Cheerful Keen to our Hong Kong customers and our overseas customers. We have consistently adopted these pricing policies since commencement of such transactions. We made such arrangements with a view to differentiating between our overseas customers and Hong Kong customers. Under such arrangements, our orders placed overseas and in Hong Kong could be dealt with separately, with Cheerful Keen primarily managing our overseas customers and Newchamp Industries focusing on Hong Kong customers, respectively. With an aim to streamline our Group structure, we decided to pass the duty to manage our overseas customers over to Tseyu International. Tseyu International has replaced Cheerful Keen and gradually taken up the duty to manage our overseas customers since October 2016. All the transactions dealt with by Cheerful Keen in relation to orders from our overseas customers had been completed by March 2017. As at the Latest Practicable Date, Cheerful Keen was not engaged in any operation. Newchamp Industries had remained managing our Hong Kong customers for us as at the Latest Practicable Date.

The tables below set out the respective gross profit margins regarding those products sold to Tseyu International, Cheerful Keen and Newchamp Industries by Guangzhou Xinhua during the Track Record Period:

*Guangzhou Xinhua selling products to Tseyu International, Cheerful Keen and Newchamp Industries*

	<b>For the year ended 31 December 2015</b>			
	<b>Revenue</b>	<b>Cost</b>	<b>Gross profit</b>	<b>Gross profit margin</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Tseyu International	—	—	—	N/A
Newchamp Industries	2,527	(2,398)	129	5.1
Cheerful Keen	<u>24,358</u>	<u>(23,121)</u>	<u>1,237</u>	5.1
	<u>26,885</u>	<u>(25,519)</u>	<u>1,366</u>	5.1
	<b>For the year ended 31 December 2016</b>			
	<b>Revenue</b>	<b>Cost</b>	<b>Gross profit</b>	<b>Gross profit margin</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Tseyu International	2,352	(2,105)	247	10.5
Newchamp Industries	2,074	(1,856)	218	10.5
Cheerful Keen	<u>18,664</u>	<u>(16,709)</u>	<u>1,955</u>	10.5
	<u>23,090</u>	<u>(20,670)</u>	<u>2,420</u>	10.5

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**For the five months ended 31 May 2017**

	<b>Revenue</b>	<b>Cost</b>	<b>Gross profit</b>	<b>Gross profit margin</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Tseyu International	8,463	(7,256)	1,207	14.3
Newchamp Industries	597	(512)	85	14.2
Cheerful Keen	<u>15</u>	<u>(13)</u>	<u>2</u>	13.3
	<u>9,075</u>	<u>(7,781)</u>	<u>1,294</u>	14.3

The continuous increase in the gross profit margin derived from the intra-group sales from Guangzhou Xinhua during the Track Record Period was mainly due to the depreciation of Renminbi against Hong Kong dollars. If Guangzhou Xinhua excludes the effect of fluctuation in the exchange rate by adopting a constant exchange rate of 0.8863 HK\$/RMB (representing the exchange rate for the five months ended 31 May 2017) to convert the cost, which was extracted from Guangzhou Xinhua's accounts and denominated in Renminbi, to Hong Kong dollars, the gross profit margin of Guangzhou Xinhua would be approximately 14.0%, 13.6% and 14.3% for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively, which remained stable during the Track Record Period.

The tables below set out the gross profit margins regarding those products sold to Tseyu International by Cheerful Keen and Newchamp Industries respectively during the Track Record Period:

*Cheerful Keen selling products to Tseyu International*

	<b>Year ended 31 December</b>		<b>For the five months ended</b>
	<b>2015</b>	<b>2016</b>	<b>31 May 2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	24,358	18,664	15
Cost	<u>(24,358)</u>	<u>(18,664)</u>	<u>(15)</u>
Gross profit	<u>—</u>	<u>—</u>	<u>—</u>
Gross profit margin	<u>0%</u>	<u>0%</u>	<u>0%</u>



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*Newchamp Industries selling products to Tseyu International*

	<b>For the five months ended</b>		
	<b>Year ended 31 December</b>		<b>31 May</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	2,579	2,116	608
Cost	<u>(2,527)</u>	<u>(2,074)</u>	<u>(597)</u>
Gross profit	<u>52</u>	<u>42</u>	<u>11</u>
Gross profit margin	<u>2%</u>	<u>2%</u>	<u>2%</u>

Considering that only minimal office expenses were incurred during the Track Record Period, Cheerful Keen did not sell products to Tseyu International at a markup. On the other hand, since a small amount of administrative expenses had been incurred during the Track Record Period, Newchamp Industries sold products to Tseyu International at a slight markup of 2%.

The aforesaid intra-group transactions are subject to the applicable transfer pricing requirements pursuant to the applicable PRC, Hong Kong and BVI tax laws and regulations. Our tax advisers have conducted a review on our transfer pricing practice during the Track Record Period. As advised by our tax advisers, our Group had been in compliance with applicable transfer pricing requirements pursuant to the relevant transfer pricing laws and regulations in the PRC, Hong Kong and BVI in all material aspects during the Track Record Period on the following grounds:

- (i) in the review conducted in accordance with the relevant transfer pricing guideline, our tax advisers compared our Group's transfer pricing practice with the benchmarks, which were derived from comparable companies engaged in a similar industry with similar functions and risks under the "Transactional net margin method" as compared to related parties in our intra-group transactions. Based on this review, our tax advisers concur with our Directors' view that our Group's intra-group transactions were in compliance with the arm's length principle pursuant to the relevant transfer pricing guideline;
- (ii) pursuant to the Law of the PRC on the Administration of Tax Collections, Implementing Regulations of the Enterprise Income Tax Law of the PRC and Circular of the State Administration of Taxation on Printing and Distributing the Implementing Measures for Special Tax Adjustments, related party transactions should comply with the arm's length principle (公平交易原則) and Announcement of State Administration of Taxation on Relevant Matters relating to Improvement of the Filing of Related-Party Transaction and the Management of Contemporaneous Documents, any company entering into related party transactions with another company shall submit a Statement on the Summary of related-party transactions (年度關聯業務往來報告表) to the PRC tax authorities. Should the related party transactions fail to comply with the arm's length principle and result in the reduction of the enterprise's taxable income, the tax authority has the power to make a special adjustment

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within ten years from the tax paying year that the non-compliant related party transaction had taken place. Further, enterprise entering into a transaction with associated parties, and taxation authorities reviewing such transaction shall observe the arm's length principle and employ a reasonable transfer pricing method. In the event that the related party transactions exceed a certain threshold, the PRC company shall keep and, as requested by the tax authority, submit the Contemporaneous Documents (同期資料) relating to the related party transaction to the same. Since commencement of our intra-group transactions and up to the Latest Practicable Date, our Group had not been required under the Circular of the State Administration of Taxation on Printing and Distributing the Implementing Measures for Special Tax Adjustments to submit the aforesaid Contemporaneous Documents to the PRC tax authorities. Nor had we been subject to the aforesaid special adjustment imposed by the PRC tax authorities;

- (iii) Guangzhou Xinhua has obtained tax certification (涉税徵信證明) from the PRC tax authorities to confirm the tax clearance for the years of 2015 and 2016 and the period of the first six months of 2017 (up to June 2017); and
- (iv) our Group had not been subject to any penalty imposed by, or subject to any investigation or challenge from, any tax authority in the PRC or Hong Kong with respect to our intra-group transactions.

To ensure our Group's ongoing compliance with the applicable laws, rules and regulations, we have adopted internal control measures in respect of our transfer pricing practice:

- (i) we have designated Ms. Liu Jinghui, our financial controller (“**Financial Controller**”) to regularly collect updates on tax laws and regulations relevant to transfer pricing;
- (ii) we monitor our transactional transfer pricing arrangements to ensure their compliance with the arm's length principle;
- (iii) our inter-company balances and transactions are reconciled from time to time at report periods to make sure that no significant difference exists;
- (iv) we have designated our Financial Controller to review the related party transaction forms prepared by Guangzhou Xinhua and identify any discrepancy before submitting them to the PRC tax authority, and to make sure all the reporting forms are properly filed and maintained for inspection;
- (v) we have designated our Financial Controller to examine the amount of related party transactions and determine whether transfer pricing documentation reports are required to be prepared, and if so required, ensure such filings with the relevant tax authority meet the deadline;
- (vi) our Financial Controller will be responsible for the review, on a regular basis, on our Group's compliance with relevant transfer pricing laws and regulations in the PRC, Hong Kong and BVI, and where necessary, shall consult an independent tax consultant; and

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(vii) regular identification and assessment of tax-related risks are carried out in our board meetings.

The tables below set out the revenue and gross profit recorded by each of our Group's operating subsidiaries in Hong Kong as well as the PRC, namely, Guangzhou Xinhua, Tseyu International, Cheerful Keen and Newchamp Industries:

	<b>For the year ended 31 December 2015</b>		
	<b>Revenue</b>	<b>Cost</b>	<b>Gross profit</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guangzhou Xinhua	74,783	(56,174)	18,609
Tseyu International	34,931	(27,321)	7,610
Cheerful Keen	24,358	(24,358)	—
Newchamp Industries	<u>2,579</u>	<u>(2,527)</u>	<u>52</u>
	<u>136,651</u>	<u>(110,380)</u>	<u>26,271</u>

	<b>For the year ended 31 December 2016</b>		
	<b>Revenue</b>	<b>Cost</b>	<b>Gross profit</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guangzhou Xinhua	61,345	(44,765)	16,580
Tseyu International	34,369	(23,984)	10,385
Cheerful Keen	18,664	(18,664)	—
Newchamp Industries	<u>2,116</u>	<u>(2,074)</u>	<u>42</u>
	<u>116,494</u>	<u>(89,487)</u>	<u>27,007</u>

	<b>For the five months ended 31 May 2017</b>		
	<b>Revenue</b>	<b>Cost</b>	<b>Gross profit</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guangzhou Xinhua	21,631	(15,332)	6,299
Tseyu International	12,937	(9,927)	3,010
Cheerful Keen	15	(15)	—
Newchamp Industries	<u>608</u>	<u>(597)</u>	<u>11</u>
	<u>35,191</u>	<u>(25,871)</u>	<u>9,320</u>

### Critical accounting policies

The Accountants' Report in Appendix I to this prospectus sets out further information regarding certain significant accounting policies, which are important for an understanding of the financial condition and results of operations of our Group.

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Some of our accounting policies involve subjective assumptions, estimates and judgments that are discussed in notes 2 and 3 to the Accountants' Report in Appendix I to this prospectus. In the application of our accounting policies, our management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our estimates and other associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Our estimates and underlying assumptions are reviewed by our management on an ongoing basis. Please refer to note 3 of the Accountants' Report in Appendix I to this prospectus for further details.

### Principal components of results of operations

#### *Revenue*

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and provision of services in the ordinary course of our Group's activities. Sales are shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within our Group.

During the Track Record Period, we generated our revenue from the sales of sewing threads to the PRC, Hong Kong and overseas countries including UAE, Mauritius, Australia, Germany and the U.K. Our major product for sale is 100% spun polyester sewing threads, we also offer other types of sewing threads, namely, textured polyester sewing threads, elastic filament sewing threads, and weft yarn. Our total revenue amounted to approximately HK\$82.8 million and HK\$72.6 million for the two years ended 31 December 2016, respectively and approximately HK\$25.4 million and HK\$26.1 million for each of the five months ended 31 May 2016 and 2017, respectively.

Our customer base remained solid and stable during the Track Record Period. During the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, we served a total of 779, 741, 620 and 572 customers, respectively. Our ability to maintain a stable customer base will enable us to have a steady source of revenue going forward and providing sustainability to our business.

#### *Revenue breakdown by product*

Set out below is a breakdown of our revenue by sewing thread types we offered for sale during the Track Record Period:

	Year ended 31 December				Five months ended 31 May			
	2015		2016		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
100% spun polyester sewing threads	72,680	87.7	65,267	89.9	22,490	88.4	23,539	90.2
Other threads ( <i>Note</i> )	10,149	12.3	7,357	10.1	2,956	11.6	2,566	9.8
<b>Total</b>	<b>82,829</b>	<b>100.0</b>	<b>72,624</b>	<b>100.0</b>	<b>25,446</b>	<b>100.0</b>	<b>26,105</b>	<b>100.0</b>

*Note:* Other threads comprise textured polyester sewing threads, elastic filament sewing threads and weft yarn.

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Our largest source of revenue was the sales of polyester threads, which amounted to approximately HK\$72.7 million, HK\$65.3 million, HK\$22.5 million and HK\$23.5 million, respectively, for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, representing approximately 87.7%, 89.9%, 88.4% and 90.2%, respectively, of our total revenue over the same period.

### *Revenue breakdown by geographical location*

Our products are sold in the PRC and the overseas market to garments manufacturers and wholesalers. The following table sets forth our revenue attributable to domestic and overseas sales of our sewing threads for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017:

	Year ended 31 December				Five months ended 31 May			
	2015		2016		2016		2017	
	HK\$'000	% of total revenue	HK\$'000	% of total revenue	HK\$'000	% of total revenue	HK\$'000	% of total revenue
<b>PRC</b>								
Guangdong province	46,771	56.5	37,288	51.3	14,792	58.1	12,129	46.5
Others	1,678	2.0	1,445	2.0	473	1.9	857	3.3
Sub-total	48,449	58.5	38,733	53.3	15,265	60.0	12,986	49.8
<b>Hong Kong</b>	5,426	6.5	5,964	8.2	2,214	8.7	2,984	11.4
<b>Overseas</b>								
UAE	22,218	26.8	20,556	28.3	5,035	19.8	8,355	32.0
Mauritius	3,092	3.7	3,814	5.3	1,198	4.7	1,171	4.5
Germany	790	1.0	1,227	1.7	407	1.6	406	1.6
Australia	1,079	1.3	833	1.2	342	1.4	203	0.7
Russia	391	0.5	398	0.5	397	1.6	—	—
Jamaica	787	1.0	390	0.5	389	1.5	—	—
England	338	0.4	252	0.3	—	0.0	—	—
Switzerland	73	0.1	233	0.3	136	0.5	—	—
Belgium	71	0.1	115	0.2	—	0.0	—	—
Panama	115	0.1	109	0.2	63	0.2	—	—
Sub-total	28,954	35.0	27,927	38.5	7,967	31.3	10,135	38.8
<b>Total</b>	<u>82,829</u>	<u>100.0</u>	<u>72,624</u>	<u>100.0</u>	<u>25,446</u>	<u>100.0</u>	<u>26,105</u>	<u>100.0</u>

The PRC was our largest market by geographical location during the Track Record Period. Our sales in the PRC accounted for approximately HK\$48.4 million, HK\$38.7 million, HK\$15.3 million and HK\$13.0 million, respectively, for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, representing approximately 58.5%, 53.3%, 60.0% and 49.8%, respectively, of our total revenue over the same period.

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During the Track Record Period, we also sold our sewing threads to Hong Kong and overseas countries. Our sales to overseas countries accounted for approximately HK\$29.0 million, HK\$27.9 million, HK\$8.0 million and HK\$10.1 million, respectively, for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, representing approximately 35.0%, 38.5%, 31.3% and 38.8%, respectively, of our total revenue over the same period.

During the Track Record Period, UAE was our largest overseas market and we exported sewing threads to a single customer in Dubai. Our sales to this customer accounted for approximately HK\$22.2 million, HK\$20.6 million, HK\$5.0 million and HK\$8.4 million, respectively, for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, representing approximately 26.8%, 28.3%, 19.8% and 32.0%, respectively, of our total revenue over the same period.

Our sales to Hong Kong accounted for approximately HK\$5.4 million, HK\$6.0 million, HK\$2.2 million and HK\$3.0 million, respectively, for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, representing approximately 6.5%, 8.2%, 8.7% and 11.4%, respectively, of our total revenue over the same period. Our sales to Hong Kong rose steadily throughout the Track Record Period.

### *Cost of sales*

The following table sets out the components of our cost of sales and the components as a percentage of total cost of sales for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017:

	Year ended 31 December				Five months ended 31 May			
	2015		2016		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Direct Materials	25,433	45.0	21,290	46.7	8,037	47.4	8,203	48.8
Overheads								
— Wages and bonus	4,807	8.5	4,478	9.8	1,553	9.2	2,020	12.0
— Welfare and social insurance	1,053	1.9	875	1.9	369	2.2	251	1.5
— Steam	2,289	4.0	608	1.3	424	2.5	—	0.0
— Consumables	642	1.1	763	1.7	360	2.1	153	0.9
— Utility	3,138	5.5	1,457	3.2	629	3.7	341	2.0
— Processing fee	9,659	17.1	10,524	23.1	2,685	15.8	4,512	26.9
— Depreciation	1,291	2.3	599	1.3	332	2.0	112	0.7
— Rental fee	646	1.1	302	0.7	152	0.9	67	0.4
— Others	699	1.3	524	1.1	387	2.3	59	0.4
Direct Labour cost	6,901	12.2	4,197	9.2	2,043	11.9	1,067	6.4
	<u>56,558</u>	<u>100.0</u>	<u>45,617</u>	<u>100.0</u>	<u>16,971</u>	<u>100.0</u>	<u>16,785</u>	<u>100.0</u>

For the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, our cost of sales was approximately HK\$56.6 million, HK\$45.6 million, HK\$17.0 million and HK\$16.8 million respectively, representing approximately 68.3%, 62.8%, 66.7% and 64.3% of our total revenue.

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Our cost of sales mainly represents (i) direct material cost (ii) processing fee, and (iii) labour costs. These cost of sale components in aggregate accounted for approximately 74.3%, 79.0%, 75.1% and 82.1% of the total cost of sales for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, respectively. Other cost of sale components included (i) rental charges; (ii) machinery depreciation expenses; (iii) steam costs; and (iv) other direct cost related to production activities such as utilities and consumables.

### *Direct material cost*

Our products for sale are mainly sewing threads, of which the raw material is fibre. Fibre is purchased by us and further processed in our subcontractors' factory for yarn production before delivery to our factory. We may also purchase yarn directly from our yarn suppliers. During the Track Record Period, direct material costs constituted a substantial portion of our total cost of sales. For the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, our direct material costs amounted to HK\$25.4 million, HK\$21.3 million, HK\$8.0 million and HK\$8.2 million, accounting for 45.0%, 46.7%, 47.4% and 48.8% of our total cost of sales, respectively. Our direct material costs remained stable during the Track Record Period. The following table sets out the breakdown of our Group's direct material costs for the periods indicated:

	Year ended 31 December				Five months ended 31 May			
	2015		2016		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Fibre	8,942	35.2	5,147	24.2	1,920	23.8	2,419	29.5
Yarn	7,221	28.4	9,051	42.5	3,487	43.4	2,794	34.1
Dyeing Materials	5,291	20.8	3,502	16.4	1,348	16.8	1,471	17.9
Packing Materials	3,979	15.6	3,590	16.9	1,282	16.0	1,519	18.5
<b>Total</b>	<b>25,433</b>	<b>100.0</b>	<b>21,290</b>	<b>100.0</b>	<b>8,037</b>	<b>100.0</b>	<b>8,203</b>	<b>100.0</b>

### *Processing fee*

Processing fee was the second largest component of our cost of sales and accounted for approximately HK\$9.7 million, HK\$10.5 million, HK\$2.7 million and HK\$4.5 million, respectively, for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, representing approximately 17.1%, 23.1%, 15.8% and 26.9%, respectively, of our total cost of sales over the same period.

The following table sets out a breakdown of our processing fees during the Track Record Period:

	Year ended 31 December				Five months ended 31 May			
	2015		2016		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Processing fee								
— further-yarn processing	9,568	91.1	6,400	60.8	2,391	89.1	2,635	58.4
— dyeing	91	0.9	3,865	36.7	236	8.7	1,877	41.6
— others	—	—	259	2.5	58	2.2	—	—
<b>Total</b>	<b>9,659</b>	<b>100.0</b>	<b>10,524</b>	<b>100.0</b>	<b>2,685</b>	<b>100.0</b>	<b>4,512</b>	<b>100.0</b>

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During the Track Record Period, we have outsourced the production of yarns from fibre and the dyeing of threads to independent subcontractors. The total processing fee for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017 amounting to HK\$9.7 million, HK\$10.5 million, HK\$2.7 million and HK\$4.5 million, respectively, representing approximately 17.1%, 23.1%, 15.8% and 26.9% of the total cost of sales for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, respectively.

The increase of processing fee is primarily due to the closure of our dyeing facilities during the year 2016. We incurred approximately HK\$91,000, HK\$3.9 million, HK\$0.2 million and HK\$1.9 million in costs in association with processing fee for the dyeing of threads by independent subcontractors for the two years ended 31 December 2016 and for each of the five months ended 31 May 2016 and 2017, respectively.

On the contrary, costs relating to yarn processing decreased from approximately HK\$9.6 million for the year ended 31 December 2015 to approximately HK\$6.4 million for the year ended 31 December 2016, representing a decrease of approximately HK\$3.2 million, or 33.1%. Such decrease was mainly due to the increased purchase in yarn and decreased purchase in fibre as compared to 2015. Costs relating to yarn processing slightly increased from approximately HK\$2.4 million for the five months ended 31 May 2016 to approximately HK\$2.6 million for the same period in 2017, representing an increase of approximately HK\$0.2 million, or 10.2%. Such increase was mainly due to the markup in the quotation of yarn processing by our yarn manufacturer.

### ***Direct labour cost***

Direct labour costs consist of costs that are directly payable in connection with our operation staff, which mainly consist of wages and social insurance contributions. For the two years ended 31 December 2016 and the five months ended 31 May 2016 and 2017, our direct labour costs amounted to HK\$6.9 million, HK\$4.2 million, HK\$2.0 million and HK\$1.1 million, accounting for 12.2%, 9.2%, 11.9% and 6.4% of our total cost of sales, respectively.

### ***Utilities and other manufacturing costs***

Our utilities expense accounted for approximately HK\$3.1 million, HK\$1.5 million, HK\$0.6 million and HK\$0.3 million, respectively, for the two years ended 31 December 2016 and for each of the five months ended 31 May 2016 and 2017, representing approximately 5.5%, 3.2%, 3.7% and 2.0%, respectively, of our total cost of sales over the same period. The decrease in utilities expense was in line with the decrease in production volume during the Track Record Period.

During the Track Record Period, we consumed steam in the course of dyeing of sewing threads at our Guangzhou Production Facilities. The steam costs accounted for approximately HK\$2.3 million in the year ended 31 December 2015, representing approximately 4.0% of our total cost of sales over the same period. We did not consume steam once we ceased the dyeing process at our Guangzhou Production Facilities since May 2016. The steam costs thus reduced to approximately HK\$0.6 million, representing approximately 1.3% of our total cost of sales for the year ended 31 December 2016, and there was no consumption of steam for the five months ended 31 May 2017 as we had closed our dyeing facilities in May 2016.



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### *Gross profit and gross profit margin*

Our overall gross profit was approximately HK\$26.3 million, HK\$27.0 million, HK\$8.5 million and HK\$9.3 million for the two years ended 31 December 2016 and the five months ended 31 May 2016 and 2017, respectively, while our gross profit margin was approximately 31.7%, 37.2%, 33.3% and 35.7% for the same periods, respectively.

The following table sets out a breakdown of gross profit and gross profit margin by the sewing thread types we offered for sale for each of the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017:

	Year ended 31 December				Five months ended 31 May			
	2015		2016		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
100% spun polyester sewing threads	22,861	31.5	24,560	37.6	7,532	33.5	8,454	35.9
Other threads ( <i>Note</i> )	3,410	33.6	2,447	33.3	943	31.9	866	33.7
<b>Total</b>	<b>26,271</b>	<b>31.7</b>	<b>27,007</b>	<b>37.2</b>	<b>8,475</b>	<b>33.3</b>	<b>9,320</b>	<b>35.7</b>

*Note:* Other threads comprise textured polyester sewing threads, elastic filament sewing threads and weft yarn.

The following table sets out a breakdown of gross profit and gross profit margin of our sales by geographical location for each of the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017:

	Year ended 31 December				Five months ended 31 May			
	2015		2016		2016		2017	
	HK\$'000	Gross profit margin %	HK\$'000	Gross profit margin %	HK\$'000	Gross profit margin %	HK\$'000	Gross profit margin %
<b>China</b>								
Guangdong province	17,070	36.5	14,199	38.1	5,195	35.1	4,439	36.6
Others	340	20.3	346	23.9	188	39.7	279	32.6
<b>Sub-total</b>	<b>17,410</b>	<b>35.9</b>	<b>14,545</b>	<b>37.6</b>	<b>5,383</b>	<b>35.3</b>	<b>4,718</b>	<b>36.3</b>
<b>Hong Kong</b>	<b>2,341</b>	<b>43.1</b>	<b>2,888</b>	<b>48.4</b>	<b>955</b>	<b>43.1</b>	<b>1,349</b>	<b>45.2</b>
<b>Overseas countries</b>								
UAE	4,806	21.6	7,026	34.2	1,252	24.9	2,619	31.3
Mauritius	771	24.9	1,124	29.5	338	28.2	405	34.6
Germany	212	26.8	526	42.9	128	31.4	140	34.5
Australia	114	10.6	162	19.4	68	19.9	89	43.8
Russia	136	34.8	161	40.5	114	28.7	—	—
Jamaica	279	35.5	185	47.4	143	36.8	—	—
England	103	30.5	158	62.7	—	—	—	—
Switzerland	31	42.5	121	51.9	58	42.6	—	—
Belgium	23	32.4	51	44.3	—	—	—	—
Panama	45	39.1	60	55.0	36	57.1	—	—
<b>Sub-total</b>	<b>6,520</b>	<b>22.5</b>	<b>9,574</b>	<b>34.3</b>	<b>2,137</b>	<b>26.8</b>	<b>3,253</b>	<b>32.1</b>
<b>Total</b>	<b>26,271</b>	<b>31.7</b>	<b>27,007</b>	<b>37.2</b>	<b>8,475</b>	<b>33.3</b>	<b>9,320</b>	<b>35.7</b>

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### *Other gains/losses, net*

Our other net gains/losses primarily consist of foreign exchange gains/(losses), bank interest income, government grants, gains/(losses) on disposal of property, plant and equipment and gains/(losses) on disposal of financial assets at fair value through profit and loss. Our other net losses amounted to approximately HK\$0.6 million, HK\$8.8 million, HK\$3.0 million and HK\$4.7 million respectively, for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017.

The following table sets out a breakdown of other gains and losses for each of the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017:

	<b>Year ended 31 December</b>		<b>Five months ended 31 May</b>	
	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fair value gain/(losses) on foreign exchange rate forward contract	(1,179)	249	249	—
Exchange gain/(losses)	641	853	18	(506)
Government grants	25	191	10	—
Interest income	12	5	2	—
Gain/(loss) on disposal of items of property, plant and equipment	(13)	(1,893)	(15)	57
Gain on disposal of a subsidiary	—	217	—	—
Fine for sewage spill	(125)	—	—	—
Listing expenses	—	(6,552)	(2,393)	(4,257)
Severance payments	—	(1,858)	(873)	—
	<u>(639)</u>	<u>(8,788)</u>	<u>(3,002)</u>	<u>(4,706)</u>

### **Fair value gain/(losses) on foreign exchange rate forward contract**

During the Track Record Period, we used a derivative financial instrument to manage our foreign currency risk. Our Group entered into a foreign exchange rate forward contract (the “**Forward Contract**”) with DBS Bank (Hong Kong) Limited, which had a two-year term with monthly settlements from 30 June 2014 to 27 June 2016. Subject to the terms and conditions stated in the Forward Contract, we had agreed to execute currency trades on each settlement date that had the effect of purchasing a specified Renminbi amount for each trade, with U.S. dollars at agreed forward rate at 6.41. The notional transaction amount on each settlement date was US\$399,000. The Forward Contract did not require any upfront or premium payment from us.

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With respect to each transaction, (i) if the spot exchange rate of U.S. dollars against Renminbi was equal to or lower than the capped rate at 6.38, the bank would have to pay us a fixed amount of RMB11,970, and we would not have to pay any amount to the bank; (ii) if the spot exchange rate was equal to or lower than the forward rate at 6.41 but greater than the capped rate at 6.38, we would have to purchase RMB2,557,590 with US\$399,000 at spot exchange rate; (iii) if the spot exchange rate was greater than the forward rate at 6.41, we would have to purchase RMB5,115,180 with US\$798,000 at spot exchange rate.

The derivative financial instrument was initially recognised at fair value on the date on which the Forward Contract was entered into and was subsequently remeasured at fair value. Derivative is carried as asset when the fair value is positive and as liability when the fair value is negative.

The derivative instrument that we entered into was not qualified as a hedging instrument in hedge relationships as defined by HKAS39. Accordingly, changes in the fair value of the derivative instrument was recognised in our combined statements of profit or loss.

For the two years ended 31 December 2016, we had recorded a fair value loss from the derivative financial instrument of approximately HK\$1.2 million and a fair value gain from the derivative financial instrument of approximately HK\$0.2 million, respectively. This was mainly due to the managements' expectation of the fluctuation in the exchange rates of Renminbi against US dollar according to the fact that: (i) sharp depreciation of Renminbi against U.S. dollar in the second half of the year ended 31 December 2015; and (ii) inflation of Renminbi against U.S. dollar in the first quarter of the year ended 31 December 2016. Our Group did not enter into any other forward exchange rate contract since 27 June 2016. Therefore, no gain or loss has been recorded on the foreign exchange rate forward contract since July 2016.

### **Exchange gains/(losses)**

Foreign exchange gain arising mainly from the fluctuation in exchange rates between the invoice dates and settlement dates of our sales and purchases. Our Group recorded exchange gain of approximately HK\$0.6 million, HK\$0.9 million, HK\$18,000, and exchange loss of approximately HK\$0.5 million for the two years ended 31 December 2016 and for each of the five months ended 31 May 2016 and 2017, respectively.

### **Government grants**

Our Group received government grants from the PRC government authorities during the Track Record Period. We recognised government grants of approximately HK\$25,000, HK\$0.2 million, HK\$10,000 and nil for the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017 respectively. The asset-related unconditional grants we received from the PRC government authorities in recognition of the efforts of our Group for water processing construction in Guangzhou, the PRC, which are deferred and recognised in the combined statements of comprehensive income on a straight-line basis over the expected useful lives of the relevant assets. As at 31 December 2016, the government grants had been fully recognised as the relevant assets were disposed of along with the disposal of our dyeing facilities.

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### Gain/loss on disposal of fixed assets

During the two years ended 31 December 2016 and the each of the five months ended 31 May 2016 and 2017, our Group disposed of assets with their carrying value amounting to approximately HK\$13,000, HK\$2.5 million, HK\$0.1 million and HK\$56,000 respectively. Fixed assets disposed of by our Group mainly represented fixed assets which had no further use for the Group including the fixed assets in association with our dyeing facilities.

We recorded losses mainly resulting from the disposal of our scrap value assets in respect of our dyeing facilities at our Guangzhou Production Facilities of approximately HK\$13,000 and HK\$1.9 million for the two years ended 31 December 2016 and a gain of approximately HK\$57,000 for the disposal of fixed assets for the five months ended 31 May 2017.

### Gain on disposal of a subsidiary

For the year ended 31 December 2016, our Group recorded a gain on disposal of a subsidiary of approximately HK\$0.2 million in other income and gains. The related subsidiary was Foshan Zhihua, which was intended to engage in the dyeing process. Foshan Zhihua was disposed of by our Group to Zhou Yiyang, an Independent Third Party at a cash consideration of RMB500,000 (equivalent to HK\$584,000), which was determined with reference to the registered capital of Foshan Zhihua, on 20 June 2016. For details of the disposal of Foshan Zhihua, please refer to the section headed “Business — Subcontracting of dyeing process — subcontracting the dyeing process and disposing of Foshan Zhihua” of this prospectus. The following table sets forth a calculation of the gain on disposal of Foshan Zhihua:

	<b>31 December</b> <b>2016</b> <i>HK\$'000</i>
Net assets disposed of:	
Property, plant and equipment	2,836
Deferred tax assets	58
Prepayments, deposits and other receivables	1,269
Cash and cash equivalents	18
Other payables and accruals	(413)
Tax payable	(34)
Amount due to Jinxin China	(7)
Amount due to Guangzhou Xinhua	(3,349)
	378
Exchange fluctuation reserve	(11)
Gain on disposal of a subsidiary	217
Consideration received	584

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### Listing expenses

Listing expenses represent the fees to professional parties in relation to the proposed listing of our Group paid and accrued which is non-recurring in nature. For the year ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, we recognised listing expenses of approximately HK\$6.6 million, HK\$2.4 million and HK\$4.3 million respectively, in the combined statements of profit or loss.

### Severance payments

For the two years ended 31 December 2016 and the five months ended 31 May 2016 and 2017, we recognised severance payments of approximately nil, HK\$1.9 million, HK\$0.9 million and nil, respectively. Such cost was mainly a result of a one-off severance payment that was recorded in relation to the closure of dyeing facilities for the year ended 31 December 2016. The payment was paid to all employees who were laid off because of the permanent closure of our dyeing facilities. There was no severance payments in relation to the closure of dyeing facilities recorded for the five months ended 31 May 2017.

### Selling expenses

Selling expenses primarily consist of staff costs, transportation expenses, office expenses and depreciation. The table below summarises the components of selling expenses for the periods indicated:

	Year ended 31 December				Five months ended 31 May			
	2015		2016		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Staff costs	3,612	47.1	3,886	55.9	1,292	47.7	1,450	61.6
Transportation	2,462	32.1	1,899	27.3	717	26.5	640	27.1
Management fee	788	10.3	317	4.6	317	11.7	—	—
Office expenses	477	6.2	480	6.9	174	6.4	170	7.2
Depreciation	120	1.6	56	0.8	28	1.0	27	1.1
Entertainment	17	0.2	45	0.6	41	1.5	6	0.3
Travelling	67	0.9	122	1.8	46	1.7	20	0.8
Others	125	1.6	147	2.1	94	3.5	45	1.9
<b>Total</b>	<b>7,668</b>	<b>100.0</b>	<b>6,952</b>	<b>100.0</b>	<b>2,709</b>	<b>100.0</b>	<b>2,358</b>	<b>100.0</b>

For the two years ended 31 December 2016 and each of the five months ended 31 May 2016 and 2017, our selling expenses were approximately HK\$7.7 million, HK\$7.0 million, HK\$2.7 million and HK\$2.4 million, respectively, representing approximately 9.3%, 9.6%, 10.6% and 9.0% of our total revenue, respectively. Staff costs consisted of salary, social insurance and housing fund paid for sales and customer services staff. The major component of transportation is the cost of delivery our products to our customers.

Management fee was an amount paid to Jinxin China, a company 100% controlled by Mr. Wong, the Controlling Shareholder of our Group. It represents the remuneration paid to sales staff who were under the employment contract with Jinxin China prior to June 2016, in respect to their service to our Group. Our Directors confirm that such arrangement ceased in June 2016 as relevant staff have been transferred to our Group, and their remuneration has been charged to staff costs of our Group going forward.

## FINANCIAL INFORMATION

### *General and administrative expenses*

General and administrative expenses primarily consist of staff cost, management fee, rental expenses, directors' remuneration, depreciation and office expenses. The table below summarises a breakdown of our general and administrative expenses for the periods indicated:

	Year ended 31 December				Five months ended 31 May			
	2015		2016		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Staff cost	3,169	38.7	3,205	41.3	1,305	43.7	1,620	48.2
Management fee	263	3.2	106	1.4	106	3.6	—	—
Rental fee	1,539	18.8	1,304	16.8	414	13.9	666	19.8
Directors' remuneration	643	7.8	623	8.0	256	8.6	266	7.9
Depreciation	725	8.8	687	8.9	260	8.7	145	4.3
Office expenses	454	5.5	495	6.4	189	6.3	240	7.1
Entertainment expense	387	4.7	175	2.2	74	2.5	28	0.8
Insurance	169	2.1	181	2.3	54	1.8	89	2.6
Travelling expense	113	1.4	207	2.7	71	2.4	40	1.2
Other taxes	176	2.2	160	2.1	66	2.2	53	1.6
Audit fee	201	2.5	200	2.6	—	—	—	—
Bank charges	124	1.5	106	1.4	33	1.1	37	1.1
Others	232	2.8	303	3.9	154	5.2	182	5.4
	<u>8,195</u>	<u>100.0</u>	<u>7,752</u>	<u>100.0</u>	<u>2,982</u>	<u>100.0</u>	<u>3,366</u>	<u>100.0</u>

For the two years ended 31 December 2016 and the five months ended 31 May 2016 and 2017, our general and administrative expenses were approximately HK\$8.2 million, HK\$7.8 million, HK\$3.0 million and HK\$3.4 million, respectively, representing approximately 9.9%, 10.7%, 11.7% and 12.9% of our total revenue for the same periods, respectively.

Staff costs mainly consist of salary, social insurance and housing fund paid for general and administrative department staff. Management fee is an amount paid to Jinxin China, a company 100% controlled by Mr. Wong, the Controlling Shareholder of our Group. It represents the remuneration paid to general and administrative department staff, who were under the employment contract with Jinxin China Limited prior to June 2016, with respect to their service to our Group. Our Directors confirm that such arrangement has ceased in June 2016 as relevant staff have been transferred to our Group, and their remuneration has been charged to staff costs of our Group going forward.

### *Finance costs, net*

Finance costs mainly represent interest on loans and overdrafts we borrowed from banks. The loans we borrowed were primarily used to fund our daily operations. Our finance costs amounted to approximately HK\$3.2 million, HK\$2.9 million, HK\$1.3 million and HK\$1.0 million, respectively, for the two years ended 31 December 2016 and the five months ended 31 May 2016 and 2017.

### *Income tax expenses*

Our Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which subsidiaries of our Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, our Group is not subject to any income tax in the Cayman Islands and the BVI.

## FINANCIAL INFORMATION

For our operation in Hong Kong, we are generally subject to the Hong Kong profit tax at a rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Track Record Period. Pursuant to the Enterprise Income Tax Law of the PRC and the respective regulations, the subsidiaries which our Group operate in the PRC are subject to corporate income tax at a rate of 25% on the taxable income.

Our effective tax rates, representing income tax divided by profit/(loss) before tax were approximately 28.4% and 176.5%, respectively, for the two years ended 31 December 2016 and we recorded negative effective tax rates of 13.3% and 17.1% for each of the five months ended 31 May 2016 and 2017, respectively.

### RESULTS OF OUR OPERATIONS

#### Year ended 31 December 2016 compared to year ended 31 December 2015

##### *Revenue*

Despite the increase in gross profit margin, our overall revenue decreased by approximately HK\$10.2 million or 12.3% from approximately HK\$82.8 million in 2015 to HK\$72.6 million in 2016, primarily as a result of the decrease of our sales in the PRC by approximately HK\$9.7 million, or 20.1% from approximately HK\$48.4 million for the year ended 31 December 2015 to approximately HK\$38.7 million for the year ended 31 December 2016. The decrease in our sales in sewing threads in China was due to the combined effects of: (i) the closure of in-house dyeing facilities; and (ii) the negative impact upon foreign currency translation.

##### *The closure of in-house dyeing facilities*

Our revenue for the first six months in 2016 decreased by approximately HK\$7.8 million, or approximately 19.6%, from approximately HK\$39.7 million for the first six months in 2015 to approximately HK\$31.9 million for the same period in 2016. Such decrease was mainly resulted from the cessation of dyeing facilities at our Guangzhou Production Facilities prior to May 2016. To prepare for the cessation of our then dyeing facilities, we needed to source suitable dyeing subcontractors which were able to provide dyeing processes of acceptable quality to us. In order to adapt to our productivity during this transitional period, we took a less active approach in securing orders from our existing customers and new customers, resulting in a decrease in the number of our sales orders and the quantity of our products sold during the first six months in 2016, which in turn led to a decrease in revenue during the first six months in 2016 as compared to the corresponding period in 2015 and a reduction in an actual production volume. Our Group recorded an approximately 2.6% increase in revenue from approximately HK\$25.4 million for the five months ended 31 May 2016 to approximately HK\$26.1 million for the five months ended 31 May 2017. Our Directors are of the view that our change in the business strategy through outsourcing the dyeing process would benefit our Group in the long run.

## FINANCIAL INFORMATION

### *The negative impact upon currency translation*

The mainland China business is considered to be our Group's biggest market as sales generated from the PRC market accounted for approximately 58.5% and 53.3% of our total revenue, respectively, for the two years ended 31 December 2016. The depreciation of the Renminbi during the year 2016 has negatively impacted growth rates when reported in Hong Kong dollars. We recorded a negative exchange difference on translation from foreign operations to HK dollars of approximately HK\$4.6 million for the year ended 31 December 2016, representing approximately 6.3 % of our total sales for the same period in 2016.

### *Cost of sales*

Our cost of sales decreased from approximately HK\$56.6 million in 2015 to HK\$45.6 million in 2016, a decrease of approximately HK\$11.0 million, or 19.3%. The decrease was mainly due to the cost savings generated from our subcontracting arrangements with our dyeing suppliers as a result of the cessation of our dyeing facilities. For further details of the relevant subcontracting arrangements, please refer to the section headed "Business — Subcontracting Arrangements — Subcontracting of dyeing process" of this prospectus. The table below sets out a comparison of the per unit subcontracting fee charged by our dyeing suppliers for the period since cessation of our Group's dyeing facilities in May 2016 and up to 31 December 2016 and our Group's per unit production cost during the year 2015.

	<b>Year ended 31 December 2015</b>	<b>For the period ended 31 December 2016 since our cessation of dyeing facilities</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Direct materials	5,176	2,010
Overheads		
— Wages and bonus	1,192	—
— Welfare and social insurance	492	—
— Consumables and steam	2,505	—
— Utility	2,474	—
— Processing fee (subcontracting fee charged by dyeing factories)	91	3,629
— Depreciation	853	—
— Others	567	—
Direct labour cost	<u>3,098</u>	<u>—</u>
	<u>16,448</u>	<u>5,639</u>
	<i>(approximately)</i>	<i>(approximately)</i>
Yarn dyeing volume (kg)	<u>1,410,000</u>	<u>753,000<sup>(Note)</sup></u>
<b>Unit cost per kg</b>	<b>HK\$11.7</b>	<b>HK\$7.5</b>

*Note:* This figure denotes the yarn dyeing volume covering only the period after the cessation of our own dyeing facilities in 2016 for comparison reasons.



## FINANCIAL INFORMATION

The cost of yarn dyeing amounted to HK\$11.7 per kg and HK\$7.5 per kg, for the year ended 31 December 2015 and the period from the shutting down of our dyeing facilities to 31 December 2016, respectively, representing a reduction of approximately HK\$4.2 per kg, or approximately 35.9%.

We were able to lower the cost of dyeing of our sewing threads by outsourcing our dyeing process instead of maintaining in our own factory for the following reasons: (1) decrease in the direct labour cost. Our direct labour cost decreased by approximately HK\$2.7 million, or approximately 39.2%, from approximately HK\$6.9 million for the year ended 31 December 2015 to approximately HK\$4.2 million for the year ended 31 December 2016. The decrease in direct labour cost was primarily due to the decrease in the number of operation staff hired by our Group as a result of the cessation of dyeing factory; (2) decrease of depreciation charges of approximately HK\$0.7 million, or approximately 53.6%, from approximately HK\$1.3 million for the year ended 31 December 2015 to approximately HK\$0.6 million for the year ended 31 December 2016, as a result of the disposal of fixed assets related to dyeing factory amounting to approximately HK\$5.3 million; (3) we have reduced the overhead cost associated with operating the dyeing facility. These overhead costs include utilities, such as electric and water. Our utilities reduced by approximately HK\$1.6 million, or approximately 53.6%, from approximately HK\$3.1 million for the year ended 31 December 2015 to approximately HK\$1.5 million for the year ended 31 December 2016. Other overhead costs include steam, which was decreased by approximately HK\$1.7 million, or approximately 73.4%, from approximately HK\$2.3 million for the year ended 31 December 2015 to approximately HK\$0.6 million for the year ended 31 December 2016.

### ***Gross profit and gross profit margin***

Our overall gross profit increased by approximately HK\$ 0.7 million, or 2.8%, from approximately HK\$26.3 million for the year ended 31 December 2015 to approximately HK\$27.0 million for the year ended 31 December 2016. The amount of gross profit increased despite the decrease in sales, mainly because of the increase in gross profit margin as mentioned below.

Our gross profit margin increased from approximately 31.7% for the year ended 31 December 2015 to 37.2% for the year ended 31 December 2016, which was primarily attributable to the following reasons:

1. Our Group's revenue generated from our overseas sales, Hong Kong sales and PRC sales was mainly denominated in US dollars, Hong Kong dollars and Renminbi, respectively, whereas cost of sales was denominated primarily in Renminbi. The table below sets forth the breakdown of the Group's revenue and cost of sales incurred in their original currencies for the two years ended 31 December 2016:

	<b>For the year ended 31 December</b>					
	<b>2015</b>			<b>2016</b>		
	<i>RMB'000</i>	<i>US\$'000</i>	<i>HK\$000</i>	<i>RMB'000</i>	<i>US\$'000</i>	<i>HK\$000</i>
Revenue	38,924	3,564	6,580	33,147	3,459	6,915
Cost of sales	45,439	—	—	38,213	—	964

## FINANCIAL INFORMATION

During the fiscal year 2016, the foreign exchange rate of Renminbi had depreciated against Hong Kong dollars. Our Group benefited from such Renminbi depreciation and thus was better off in the amount of approximately HK\$0.4 million (HK\$27.0 million minus HK\$26.6 million) for gross profit for the year ended 31 December 2016 when translating our Group's functional currencies into the presentation currency (i.e., Hong Kong dollars). Assuming the Group adopts a constant exchange rate of 1.2447 RMB/HK\$ for the two years ended 31 December 2016, the gross profit margin of our Group for the year ended 31 December 2016 would be 35.4%. The table below shows a comparison of our Group's gross profit between adopting the yearly average exchange rate of 1.1685 RMB/HK\$ for the year ended 31 December 2016 and the assumed constant exchange rate of 1.2447 RMB/HK\$ for the same period:

***By adopting the yearly average exchange rate of 1.1685 RMB/HK\$ for the year ended 31 December 2016:***

	RMB'000	US\$'000	HK\$'000	
<b>Original currency</b>				
Revenue	33,147	3,459	6,915	
Cost of sales	38,213	—	964	
 <i>Exchange Rate (RMB/HK\$, USD/HK\$, HK\$/HK\$)</i>				
	<i>1.1685</i>	<i>7.8</i>	<i>1</i>	
				<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Presentation currency</b>				
Revenue	38,733	26,976	6,915	72,624
Cost of sales	(44,653)	(—)	(964)	<u>(45,617)</u>
Gross profit				<u><u>27,007</u></u>
<b>Gross Profit Ratio</b>				<b>37.2%</b>

## FINANCIAL INFORMATION

*By adopting the assumed constant exchange rate of 1.2447 RMB/HK\$ for the year ended 31 December 2016:*

	<i>RMB'000</i>	<i>US\$'000</i>	<i>HK\$'000</i>	
<b>Original currency</b>				
Revenue	33,147	3,459	6,915	
Cost of sales	38,213	—	964	
 <i>Exchange Rate (RMB/HK\$, USD/HK\$, HK\$/HK\$)</i>				
	<i>1.2447</i>	<i>7.8</i>	<i>1</i>	
				<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Presentation currency</b>				
Revenue	41,258	26,976	6,915	75,149
Cost of sales	(47,564)	(—)	(964)	<u>(48,528)</u>
Gross profit				<u><u>26,621</u></u>
<b>Gross Profit Ratio</b>				<b>35.4%</b>

When adopting the yearly average exchange rate of 1.1685, our Group's gross profit margin for the year ended 31 December 2016 was 37.2% whereas when adopting the assumed constant exchange rate of 1.2447, our Group's gross profit margin for the year ended 31 December 2016 would be 35.4%. Thus, the difference in our Group's gross profit margin brought by the depreciation effect would be 1.8% (37.2% minus 35.4%).

- Our Group shut down our own dyeing facilities for the year ended 31 December 2016. Owing to the cessation of the dyeing facilities, our Group subcontracted the dyeing process to external dyeing suppliers, which led to a cost saving in our Group's manufacturing process. The Group's cost of sales-to-sales ratio (calculated by dividing our Group's cost of sales by total revenue) decreased from 68.3% for the year ended 31 December 2015 to 64.6% (excluded the impact of depreciation of Renminbi) for the year ended 31 December 2016, representing a decrease in the level of our Group's cost of sales as a proportion of revenue of 3.7%.

### ***Other gains/losses, net***

Other net gains/(losses) mainly represent the fair value gains or losses on derivative financial instrument, exchange gains or losses, gains or losses on disposal of fixed assets, gains or losses on disposal of a subsidiary, listing expenses and severance payments.

## FINANCIAL INFORMATION

The fair value gains/losses on derivative financial instrument measured at fair value through profit or loss are in respect of the foreign exchange rate forward contract. As at 31 December 2015 and 2016, a loss on the change in the fair value amounting to approximately HK\$1.2 million and a gain of HK\$0.2 million was recognised in profit or loss for the two years ended 31 December 2016, respectively. The underlying forward contract expired in June 2016.

Foreign exchange gain arising mainly from the fluctuation in exchange rates between the invoice dates and settlement dates of our sales and purchases. As at 31 December 2015 and 2016, we recognised a net exchange gain amounting to approximately HK\$0.6 million and HK\$0.9 million, respectively, which was an increase of approximately HK\$0.3 million, or 33.1%.

For the year ended 31 December 2016, we recognised disposal losses of approximately HK\$1.9 million on fixed assets and one-off severance payments of approximately HK\$1.9 million to lay off employees in our dyeing department. The disposed assets were mainly related to the fixed assets that had no further use for the Group including the dyeing facilities located at our Guangzhou Production Facilities.

During the year ended 31 December 2016, we disposed of our entire interest in Foshan Zihua to an Independent Third Party and recorded a gain on the disposal of approximately HK\$0.2 million.

For the year ended 31 December 2016, we recognised listing expenses of approximately HK\$6.6 million. Please refer to the paragraph headed “Listing expenses” in this section for further details.

### *Selling expenses*

Selling expenses decreased from approximately HK\$7.7 million in 2015 to HK\$7.0 million in 2016, a decrease of 9.3%, or approximately HK\$0.7 million, primarily due to (i) the decrease in transportation costs, which was consistent with the decrease in our revenue as explained above; and (ii) the decrease in management fee, we have recognised a decrease in management fee from approximately HK\$0.8 million for the year ended 31 December 2015 to approximately HK\$0.3 million for the year ended 31 December 2016, a decrease of HK\$0.5 million, or 59.8% as a result of the cessation of the staff remuneration arrangement for sales staff between the Group and Jinxin China in June 2016. We have since included all of our staff’s remuneration into our staff costs, as such, the decrease in management fee was partially offset by the increase in staff costs from HK\$3.6 million for the year ended 31 December 2015 to HK\$3.9 million for the year ended 31 December 2016, an increase of approximately HK\$0.3 million, or approximately 7.6%.

### *General and Administrative expenses*

Administrative expenses decreased from approximately HK\$8.2 million in 2015 to HK\$7.8 million in 2016, a decrease of approximately HK\$0.4 million, or 5.4%. The decrease was a combined result of (i) the decrease in rental fee of approximately HK\$0.2 million, or 15.3%, due to the fact that tax of rental fee were excluded from the rental fees in relation to the Valued-Added Tax in Lieu of Business Tax (“營改增”); and (ii) the decrease in entertainment expenses by HK\$0.2 million, or 54.8%.

## FINANCIAL INFORMATION

### *Finance costs*

Our finance costs decreased from approximately HK\$3.2 million for the year ended 31 December 2015 to HK\$2.9 million for the year ended 31 December 2016, a decrease of approximately HK\$0.3 million, or approximately 10.7%. The decrease in finance costs was the result of a decrease in average bank loans balance in 2016.

### *Income tax expenses*

Our corporate income tax expense decreased from approximately HK\$1.9 million in 2015 to HK\$1.1 million in 2016, a decrease of approximately HK\$0.8 million, or approximately 40.6%. The decrease primarily reflected the decrease in our profit before taxation from approximately HK\$6.5 million for the year ended 31 December 2015 to approximately HK\$0.6 million for the year ended 31 December 2016. Our effective tax rate increased from 28.4% in 2015 to 176.5% in 2016, which was mainly due to the fact that the listing expenses of HK\$6.6 million could not be deductible for corporate income tax.

### *Profit before income tax*

As a result of the foregoing, our profit before income tax decreased by approximately HK\$5.9 million, or approximately 90.5% from approximately HK\$6.5 million for the year ended 31 December 2015 to approximately HK\$0.6 million for the year ended 31 December 2016. Such significant decrease in profit before income tax for the year ended 31 December 2016 as compared with the same period last year was mainly due to the one-off severance payment of approximately HK\$1.9 million in association with the closure of dyeing facilities, the non-recurring listing expenses amounting to approximately HK\$6.6 million relating to our Company's Listing, which were partially offset by the increase in our gross profit. Should the severance payment and listing expenses be excluded, our Group would generate a net profit of approximately HK\$7.9 million, for the year ended 31 December 2016, representing an increase of approximately HK\$3.3 million, or approximately 69.6%, as compared to the corresponding period of the previous year.

Our net profit margin before interest and tax also decreased from 11.8% for the year ended 31 December 2015 to 4.8% for the year ended 31 December 2016. The decrease in our net profit and net profit margin for the period was primarily attributable to the decrease in profit before tax as discussed above. If the one-off expenses are excluded, our Group would have a net profit margin before interest and tax of 16.4%, representing an increase of 39.0%, as compared to the corresponding period of the previous year.

### **Five months ended 31 May 2016 Compared to five months ended 31 May 2017**

#### *Revenue*

Our overall revenue recorded an increasing trend from approximately HK\$25.4 million for the five months ended 31 May 2016 to approximately HK\$26.1 million for the same period in 2017, representing an increase of approximately HK\$0.7 million, or approximately 2.6%.

## FINANCIAL INFORMATION

The increase in our Group's revenue was primarily due to the growth of revenue generated from our Hong Kong and Overseas customers, which in turn was mainly attributed to the addition of a major customer of the Group in Hong Kong market. Our revenue generated from Hong Kong market increased from approximately HK\$2.2 million for the five months ended 31 May 2016 to approximately HK\$3.0 million for the five months ended 31 May 2017, representing an increase of approximately HK\$0.8 million, or approximately 34.8%. Our revenue generated from overseas market increased from approximately HK\$8.0 million for the five months ended 31 May 2016 to approximately HK\$10.1 million for the five months ended 31 May 2017, representing an increase of approximately HK\$2.2 million, or approximately 27.2%.

The increase in overall revenue was partly offset by the decrease in revenue generated from PRC market during the five months ended 31 May 2017. Our revenue generated from the PRC market dropped from approximately HK\$15.3 million for the five months ended 31 May 2016 to approximately HK\$13.0 million for the five months ended 31 May 2017, representing a decrease of approximately HK\$2.3 million, or approximately 14.9%.

### *Cost of sales*

Our cost of sales slightly decreased from approximately HK\$17.0 million for the five months ended 31 May 2016 to HK\$16.8 million for the five months ended 31 May 2017, representing a decrease of approximately HK\$0.2 million, or approximately 1.1%. The decrease was mainly due to the reduction in overheads and direct labour cost associated with dyeing process, such as steam, utility and depreciation expenses. Such decrease in cost of sales was partially off-set by the increase in processing fee because of the increased subcontracting of our sewing thread dyeing process.

### *Gross profit and gross profit margin*

Our overall gross profit increased by approximately HK\$0.8 million, or 10.0%, from approximately HK\$8.5 million for the five months ended 31 May 2016 to approximately HK\$9.3 million for the five months ended 31 May 2017.

Our gross profit margin also increased from approximately 33.3% for the five months ended 31 May 2016 to approximately 35.7% for the five months ended 31 May 2017. The increase in gross profit margin was primarily attributable to the reduction in cost of sales as a result of subcontracting dyeing process to third parties instead of maintain our own dyeing facilities.

### *Other gains/losses, net*

Other gains/(losses), net mainly represent the fair value gains or losses on derivative financial instrument, exchange gains or losses, gains or losses on disposal of fixed assets, gains on disposal of a subsidiary and listing expenses.

The fair value gains/losses on derivative financial instrument measured at fair value through profit or loss are in respect of the foreign exchange rate forward contract. For the five months ended 31 May 2016, a gain on the change in the fair value of derivative financial instrument amounting to approximately HK\$0.2 million was recognised in profit or loss. The underlying forward contract expired in June 2016.

## FINANCIAL INFORMATION

Foreign exchange gain or losses arising mainly from the fluctuation in exchange rates between invoice dates and settlement dates of our sales and purchases. For the five months ended 31 May 2016 and 2017, we recognised a net exchange gain amounting to approximately HK\$18,000 and a net loss of HK\$0.5 million, respectively.

For the five months ended 31 May 2016 and 2017, we recognised a loss of approximately HK\$15,000 and a gain of approximately HK\$57,000, respectively, in relation to the disposal of fixed assets that had no further use for the Group.

For the five months ended 31 May 2016 and 2017, we recognised listing expenses of approximately HK\$2.4 million and HK\$4.3 million, respectively, representing an increase of approximately HK\$1.9 million, or 77.9%. For details, please refer to the paragraph headed “Listing expenses” below.

### *Selling expenses*

Selling expenses decreased from approximately HK\$2.7 million for the five months ended 31 May 2016 to approximately HK\$2.4 million for the five months ended 31 May 2017, a decrease of 13.0%, or approximately HK\$0.4 million, primarily due to the decrease in management fee and other expense such as entertainment and travelling. We have recognised a management fee of approximately HK\$0.3 million for the five months ended 31 May 2016. Since the arrangement between our Group and Jinxin China ceased from June 2016 onward, there is no management fee recognised for the five months ended 31 May 2017. However, such decrease was offset by the increase in staff costs amounting to approximately HK\$0.2 million from approximately HK\$1.3 million for the five months ended 31 May 2016 to approximately HK\$1.5 million for the five months ended 31 May 2017, as a result of the transfer of staff employment contracts from Jinxin China to our Group.

### *Administrative expenses*

General and administrative expenses increased from approximately HK\$3.0 million for the five months ended 31 May 2016 to HK\$3.4 million for the five months ended 31 May 2017, an increase of approximately HK\$0.4 million, or 12.9%. The increase was a combined result of (i) the rental fee, which increased from approximately HK\$0.4 million for the five months ended 31 May 2016 to HK\$0.7 million for the five months ended 31 May 2017, an increase of approximately HK\$0.3 million, or 60.9%, such increase was due to the reclassification of rental expenses for dyeing department from cost of sales to administrative expenses as this area became idle area following the disposal of the dyeing facilities and (ii) staff cost, which increased from approximately HK\$1.3 million for the five months ended 31 May 2016 to HK\$1.6 million for the five months ended 31 May 2017, an increase of approximately HK\$0.3 million, or 24.1%. Such increase was resulted from the transfer of staff employment contracts from Jinxin China to our Group, which was also reflected in the 100% decrease in management fee from HK\$0.1 to nil from the five months ended 31 May 2016 to 2017.

## FINANCIAL INFORMATION

### *Income tax expenses*

Our corporate income tax expense increased from approximately HK\$0.2 million for the five months ended 31 May 2016 to HK\$0.4 million for the five months ended 31 May 2017, an increase of HK\$0.2 million or 77.3%. Our effective tax rate was negative 13.3% for the five months ended 31 May 2016 and negative 17.1% for the five months ended 31 May 2017. If we adjusted the Group's profit before tax by excluding the listing expenses of HK\$2.4 million and HK\$4.3 million for the five months ended 31 May 2016 and 2017, respectively, which could not be deductible for corporate income tax (the "**Adjusted Profit Before Tax**"), the adjusted effective tax rate, which calculated by dividing the Adjusted Profit Before Tax by the income tax expenses, was 23.5% and 16.8% for the five months ended 31 May 2016 and 2017, respectively. The decrease in adjusted effective tax rate was mainly due to the increase in the portion of Adjusted Profit Before Tax derived from the Group's subsidiary in Hong Kong, whose statutory tax rate is 8.5% lower than that in the PRC, along with the Group's growth in the revenue in Hong Kong and oversea market.

### *Loss before income tax*

Our loss before income tax increased by approximately HK\$0.6 million, or 38.1% from approximately HK\$1.5 million for the five months ended 31 May 2016 to approximately HK\$2.1 million for the five months ended 31 May 2017. Such increase in loss before income tax for the five months ended 31 May 2017 as compared with the same period last year was mainly due to the increase in non-recurring listing expenses amounting to approximately HK\$1.9 million relating to our Company's Listing.

Our net loss margin before interest and tax also increase from 0.9% for the five months ended 31 May 2016 to 4.3% for the five months ended 31 May 2017. The increase in our loss and net loss margin for the period was primarily attributable to the increase in non-recurring expenses, as discussed above.

### **Working capital analysis**

#### *Liquidity and capital resources*

Our cash was mainly used for the purpose of property, plant and equipment, costs and expenses relating to operating activities, and repayment of bank borrowings. We have historically obtained our cash mainly from operating activities and bank borrowings.



## FINANCIAL INFORMATION

The following table sets out selected cash flow data from the combined statements of cash flows. This information should be read together with the combined financial information contained in the Accountants' Report in Appendix I to this prospectus.

	<b>Year ended 31 December</b>		<b>Five months ended 31 May</b>	
	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated from/(used in) operating activities	16,188	3,734	(6,486)	3,869
Net cash generated from/(used in) investing activities	(22,154)	19,512	9,285	(6,314)
Net cash generated from/(used in) financing activities	<u>8,726</u>	<u>(23,099)</u>	<u>(4,914)</u>	<u>(964)</u>
Net increase/(decrease) in cash and cash equivalents	<u><u>2,760</u></u>	<u><u>147</u></u>	<u><u>(2,115)</u></u>	<u><u>(3,409)</u></u>

### **Net cash generated from/(used in) operating activities**

We derive our cash inflow generated from operating activities primarily from the cash inflow from our sales proceeds of sewing threads. Cash outflow from operating activities primarily comprised costs of inventory sold, staff costs, property rentals and related expenses and selling and administrative expenses. Our cash generated from/used in operating activities reflected our profit or loss for the year adjusted for non-cash and non-operating items and increases or decreases in inventories, trade receivables, prepayments, and deposits and other receivables, trade payables, other payables and accruals, and tax payments.

We recorded a net cash generated from operating activities of approximately HK\$16.2 million for 2015, mainly as a result of operating cash flows of approximately HK\$13.0 million before net positive changes in working capital of approximately HK\$3.7 million and tax payments of approximately HK\$0.5 million. Change in working capital primarily consist of combined effects of (i) decrease in inventories of approximately HK\$2.4 million as the Group made bulk purchase of raw materials at the end of year 2014 in anticipation of future increase in oil price; (ii) decrease in trade receivables of approximately HK\$1.6 million due to the settlement from customers; and partially offset by (iii) decrease in trade payables of approximately HK\$0.8 million; and (iv) income tax paid of approximately HK\$0.5 million.

For the five months ended 31 May 2016, our Group had net cash used in operating activities of approximately HK\$6.5 million, primarily as a result of net cash generated from operating activities of approximately HK\$0.2 million, before net negative changes in working capital of approximately HK\$5.1 million and PRC taxes paid of approximately HK\$1.5 million. If we excluded the effect of the non-recurring listing expense of approximately HK\$2.4 million and non-recurring severance payment of approximately HK\$0.9 million on the loss before tax for the five months ended 31 May 2016, we would have net cash generated from operating activities before movement of working capital of approximately HK\$3.5 million for the period.

## FINANCIAL INFORMATION

For the year ended 31 December 2016, our Group had net cash generated from operating activities of approximately HK\$3.7 million, primarily as a result of operating cash flows of approximately HK\$6.1 million before net negative changes in working capital of approximately HK\$0.6 million and tax paid of approximately HK\$1.8 million. If we excluded the effect of the non-recurring listing expense of approximately HK\$6.6 million on the profit before tax for the year ended 31 December 2016, we would have net cash generated from operating activities before movement of working capital of HK\$14.5 million for the period.

For the five months ended 31 May 2017, our Group had net cash generated from operating activities of approximately HK\$3.9 million, primarily as a result of net cash used in operating activities of approximately HK\$0.9 million, before net positive changes in working capital of approximately HK\$4.8 million and tax paid of approximately HK\$72,000. If we excluded the effect of the non-recurring listing expense of approximately HK\$4.3 million on the loss before tax for the five months ended 31 May 2017, we would have net cash generated from operating activities before movement of working capital of approximately HK\$3.4 million for the period.

For illustration, the table below shows the summary of the adjusted cash flows from operating activities before the changes in working capital after excluding the non-recurring listing expense and severance payments during the Track Record Period:

	Year ended 31 December		Five months ended 31 May	
	2015	2016	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) before taxation	6,531	623	(1,529)	(2,111)
Adjustments for:				
Finance costs	3,238	2,892	1,311	1,001
Bank interest income	(12)	(5)	(2)	—
Fair value loss/(gain), net	1,179	(249)	(249)	—
Recognition of government grants	(25)	(191)	(10)	—
Depreciation	1,457	1,064	506	149
Recognition of prepaid lease payments for buildings	657	286	140	127
Loss/(gain) on disposal of items of property, plant and equipment	13	1,893	15	(57)
Gain on disposal of a subsidiary	—	(217)	—	—
Operating cash flows before movements in working capital	13,038	6,096	182	(891)
Add: non-recurring listing expenses	—	6,552	2,393	4,257
Add: non-recurring severance payments	—	1,858	873	—
Adjusted cash flow before movements in working capital	<u>13,038</u>	<u>14,506</u>	<u>3,448</u>	<u>3,366</u>

## FINANCIAL INFORMATION

As shown in the table above, our Group is able to meet the minimum cash flow requirements under Rule 11.12A of the GEM Listing Rules.

Based on the above, our Directors believe that we will have sufficient funds for our present working capital requirements for at least the next 12 months from the date of this prospectus.

### **Net cash generated from/(used in) investing activities**

Net cash generated from/(used in) investing activities principally consist of proceeds from disposal of property, plant and equipment, repayment from and advance to a related company, proceeds from the disposal of Foshan Zhihua, payment for the purchase of property, plant and equipment, payments for settlements of derivative financial instruments, payment for the purchase of available-for-sale investments and pledge deposits during the Track Record Period.

For the year ended 31 December 2015, we had net cash used in investing activities of approximately HK\$22.2 million, which was primarily generated from the purchase of property, plant and equipment amounting to approximately HK\$1.6 million, a net increase in the balance due from a related company of approximately HK\$18.5 million, and net increase in pledge deposit of approximately HK\$2.0 million.

For the five months ended 31 May 2016, we had net cash generated from investing activities of approximately HK\$9.3 million, which was primarily generated from the repayment from a related company amounting to approximately HK\$22.5 million, and offset by the purchase of items of property, plant and equipment of approximately HK\$1.3 million, the purchase of the available-for-sale investment of approximately HK\$5.5 million, the advance made to a related company of approximately HK\$5.9 million, and the settlements of derivative instruments of approximately HK\$0.6 million.

For the year ended 31 December 2016, we had net cash generated from investing activities of approximately HK\$19.5 million, which was primarily generated from the purchase of property, plant and equipment, amounting to approximately HK\$2.0 million, proceeds from disposal of property, plant and equipment, amounting to approximately HK\$0.1 million, purchase of available-for-sale asset amounting to approximately HK\$5.5 million, net decrease in the balance due from a related company, amounting to approximately HK\$31.2 million, the proceeds from disposal of a subsidiary, amounting to approximately HK\$0.6 million, and the net increase in pledged deposits of HK\$4.0 million.

For the five months ended 31 May 2017, we had net cash used in investing activities of approximately HK\$6.3 million, which was primarily due to the advance made to a related company of approximately HK\$20.7 million, the purchase of items of property, plant and equipment of approximately HK\$0.1 million, and offset by the proceeds from disposal of items of property, plant and equipment of approximately HK\$0.1 million and the repayment received from a related company of approximately HK\$14.4 million.

## FINANCIAL INFORMATION

### **Net cash generated from/(used in) financing activities**

For the year ended 31 December 2015, we had net cash generated from financing activities of approximately HK\$8.7 million, which comprised primarily of the increase of approximately HK\$86.5 million in cash from bank borrowings. These cash inflows were partially offset by repayment of bank loans of approximately HK\$74.6 million and the interest of bank borrowings and bank overdrafts of approximately HK\$3.2 million.

For the five months ended 31 May 2016, we had net cash used in financing activities of approximately HK\$4.9 million, which was primarily due to the repayment of bank loans of approximately HK\$39.3 million, the interest paid of approximately HK\$1.3 million, and offset by the new bank loans received of approximately HK\$35.7 million.

For the year ended 31 December 2016, we had net cash used in financing activities of approximately HK\$23.1 million, which comprised primarily the increase of approximately HK\$61.4 million in cash from bank borrowings. These cash inflows were offset by repayment of bank loans of approximately HK\$81.6 million and the interest of bank borrowings and bank overdrafts of approximately HK\$2.9 million.

For the five months ended 31 May 2017, we had net cash used in financing activities of approximately HK\$1.0 million, which was primarily due to the repayment of bank loans of approximately HK\$14.2 million, the interest paid of approximately HK\$1.0 million, and offset by the new bank loans received of approximately HK\$14.2 million.

## FINANCIAL INFORMATION

### *Net current assets*

Our Group recorded net current assets of approximately HK\$50.3 million, HK\$49.8 million and HK\$48.9 million, respectively, as at 31 December 2015 and 2016 and 31 May 2017. The following table sets forth the breakdown of our Group's current assets and liabilities as at the dates indicated:

	As at 31 December		As at 31 May	As at 30 September
	2015	2016	2017	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(unaudited)
<b>Current assets</b>				
Inventories	9,616	9,751	8,632	9,749
Trade receivables	15,861	13,888	15,026	17,376
Prepayments, deposits and other receivables				
Prepayment	766	1,528	3,380	4,842
Deposits	106	169	177	177
Other receivables	214	3,362	3,649	6,443
Amount due from a related company	96,982	63,087	70,180	22,210
Assets classified as held for sale	—	3,495	3,549	—
Cash and cash equivalents	1,683	799	984	393
Pledged deposits (current)	<u>5,003</u>	<u>9,000</u>	<u>9,000</u>	<u>9,000</u>
<b>Total current assets</b>	<u>130,231</u>	<u>105,079</u>	<u>114,577</u>	<u>70,190</u>
<b>Current liabilities</b>				
Trade payables	6,971	8,538	10,511	11,351
Other payables and accruals				
Receipt in advance	1,078	—	—	31
Accruals	1,928	2,484	7,189	8,925
Other payables	440	205	795	598
Salary payable and welfare payable	5,568	4,785	4,018	2,680
Other tax payables	1,688	714	933	647
Interest bearing bank borrowings	58,292	36,930	40,562	37,657
Derivative financial instrument	1,143	—	—	—
Tax payables	2,828	1,582	1,690	2,077
Government grants	<u>25</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total current liabilities</b>	<u>79,961</u>	<u>55,238</u>	<u>65,698</u>	<u>63,966</u>
<b>Net current assets</b>	<u><u>50,270</u></u>	<u><u>49,841</u></u>	<u><u>48,879</u></u>	<u><u>6,224</u></u>

## FINANCIAL INFORMATION

Our current assets consist primarily of trade receivables, prepayments, deposits and other receivables, amount due from a related company, inventories, and pledged deposits. Our current liabilities consist primarily of accruals, trade payables and other payables, tax payables and bank borrowings.

As at 30 September 2017, our net current assets were HK\$6.2 million, consisting of current assets of HK\$70.2 million and current liabilities of HK\$64.0 million. Our net current assets decreased by approximately HK\$42.7 million or 87.3%, from net current assets of approximately HK\$48.9 million as at 31 May 2017 to approximately HK\$6.2 million as at 30 September 2017. This decrease was primarily due to (i) the decrease in the amount due from a related company (Jinxin China) of approximately HK\$48.0 million mainly resulting from the offsetting between the amount due from a related company (Jinxin China) and our Group's payments for the acquisition of 20% of the issued shares of Newchamp Industries at a consideration of HK\$13.0 million and the acquisition of the entire issued shares of Tseyu International at a consideration of approximately HK\$28.0 million pursuant to the Reorganisation; and (ii) the increase in accruals of approximately HK\$1.7 million mainly as a result of the provision of listing expenses associated with our Group's Listing. Furthermore, during June 2017, our Group disposed machines and equipment in association of dyeing facilities of approximately HK\$3.5 million to Zhihua, previously classified as current assets held for sale as at 31 May 2017, which contributed to the increase of approximately HK\$2.8 million in other receivables.

As at 31 May 2017, our net current assets were HK\$48.9 million, consisting of current assets of HK\$114.6 million and current liabilities of HK\$65.7 million. Our net current assets decreased by approximately HK\$0.9 million or 1.9 %, from net current assets of approximately HK\$49.8 million as at 31 December 2016 to approximately HK\$48.9 million as at 31 May 2017. This decrease was primarily due to (i) the decrease in inventories of approximately HK\$1.1 million as a result of the decrease in our raw materials and work in process; and (ii) the increase in other payables and accruals of approximately HK\$4.7 million as a result of the provision of listing expenses associated with our Group's Listing. The decrease in our net current assets was partially offset by the increase in prepayments, deposits and other receivables of approximately HK\$2.1 million due to the increase in prepayment of listing expenses.

As at 31 December 2016, our net current assets were HK\$49.8 million, consisting of current assets of HK\$105.1 million and current liabilities of HK\$55.2 million. Our net current assets decreased by approximately HK\$0.5 million or 0.9%, from net current assets of approximately HK\$50.3 million as at 31 December 2015 to approximately HK\$49.8 million as at 31 December 2016. The decrease was primarily due to (i) the decrease in amounts due from a related company of approximately HK\$ 33.9 million as a result of the repayments from our related company; (ii) the decrease in cash and cash equivalents of approximately HK\$ 0.9 million for the reason as mentioned in the paragraph headed "Working Capital Analysis" in this section; and (iii) the increase in accruals of approximately HK\$0.6 million as a result of the provision of listing expenses. The decrease in net current assets was partially offset by the increase in other receivables of approximately HK\$3.1 million, mainly due to the disposal of Zhihua.

As at 31 December 2015, our net current assets were HK\$50.3 million, consisting of current assets of HK\$130.2 million and current liabilities of HK\$79.9 million.

## FINANCIAL INFORMATION

### Analysis of various combined statement of financial position items

#### *Property, plant and equipment (the “PPE”)*

Our property, plant and equipment mainly consists of buildings, production equipment, office equipment and furniture, leasehold improvement, vehicles and construction in progress.

The carrying amount of our property, plant and equipment was approximately HK\$14.7 million, HK\$6.2 million and HK\$6.2 million as at 31 December 2015, 31 December 2016, and 31 May 2017, respectively. Our property, plant and equipment decreased by approximately HK\$8.5 million, or approximately 58.2%, from approximately HK\$14.7 million as at 31 December 2015 to approximately HK\$6.2 million as at 31 December 2016, which was mainly due to the combined effect of:

- (i) Disposal of fixed assets including dyeing machines with carrying amount of approximately HK\$2.0 million;
- (ii) Transfer to assets held for sale of approximately HK\$3.7 million due to the closure of our dyeing facilities;
- (iii) Disposal of Foshan Zhihua which led to a decrease in the balance of construction in progress of approximately HK\$2.8 million;
- (iv) Depreciation amounted to approximately HK\$1.1 million, for the year ended 31 December 2016; and
- (v) Addition of PPE of HK\$2.1 million in relation to the Group’s construction.

Our property, plant and equipment experienced no significant movement from 31 December 2016 to 31 May 2017.

#### *Inventory*

Our raw materials mainly comprised fibre, yarn, dyeing materials and packaging materials. Our work-in-progress comprises semi-finished sewing thread products. Our finished goods are 100% spun polyester sewing threads, and other sewing threads such as textured polyester series, elastic filament sewing threads, and weft yarn. We valued our inventories at the lower of cost and net realisable value. Cost was determined on the weighted average basis. Net realised value was based on estimated selling prices less any estimated costs to be incurred to completion and selling expenses.

## FINANCIAL INFORMATION

During the Track Record Period, our inventories mainly represented raw materials, work in progress, and finished goods. The following table sets out the inventories as at the dates indicated:

	As at 31 December				As at 31 May	
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Raw materials	3,758	39.1	4,028	41.3	3,443	39.9
Work in progress	1,876	19.5	2,211	22.7	1,687	19.5
Finished goods	<u>3,982</u>	<u>41.4</u>	<u>3,512</u>	<u>36.0</u>	<u>3,502</u>	<u>40.6</u>
<b>Total</b>	<u><u>9,616</u></u>	<u><u>100.0</u></u>	<u><u>9,751</u></u>	<u><u>100.0</u></u>	<u><u>8,632</u></u>	<u><u>100.0</u></u>

The balance of our inventories accounted for 7.4%, 9.3% and 7.5% of our total current assets as at 31 December 2015 and 2016 and as at 31 May 2017, respectively.

Our inventory balance increased by 1.4% from approximately HK\$9.6 million as at 31 December 2015 to approximately HK\$9.8 million as at 31 December 2016 and inventory balance was approximately HK\$8.6 million as at 31 May 2017 and 93.7% of the inventories as at 31 May 2017 had been subsequently utilised as at the Latest Practicable Date, amounting to approximately HK\$8.1 million.

The inventory balance of our raw materials increased from HK\$3.8 million as at 31 December 2015 to HK\$4.0 million as at 31 December 2016, but decreased to HK\$3.4 million as at 31 May 2017. The 7.2% increase from 2015 to 2016 reflected an increase in the purchase of fibre and yarn as the cost of these raw materials was low in the end of 2016. The 14.5 % decrease from 2016 to 2017 was primarily due to the decrease in the purchase of fibre and yarn as the cost of these raw materials increased at the end of May 2017.

The following table set out our inventory turnover days as at periods indicated:

	Year ended 31 December		Five months ended 31 May
	2015	2016	2017
	Days	Days	Days
Turnover of average inventory (days)	<u><u>71.9</u></u>	<u><u>77.5</u></u>	<u><u>82.7</u></u>

*Note:* Calculated as the average of the beginning and ending inventory for the year, divided by cost of sales for the year, multiplied by the number of days in the period (365 days for the two years ended 31 December 2016, respectively, and 151 days for the five months ended 31 May 2017).



## FINANCIAL INFORMATION

The average inventory turnover days increased from approximately 71.9 days to 77.5 days from 2015 to 2016, and further increased to 82.7 days from 2016 to 2017. The increase in average inventory turnover days was primarily because of the increased overseas sales. We transfer our cost of finished goods to cost of sales when finished goods are shipped to customers or up to the point the goods are loaded on board the vessel for international customers. Our production lead times are normally longer and inventory levels are normally higher in international supply chains compared to our domestic sales. It usually takes five days from the time our product is shipped to the time it is delivered to our customers in PRC. However for our international sales, it may take more than 20 days before a container can be arranged for shipment with our freight forwarder.

The proportion of exports to overseas customers increased from 35.0% in 2015 to 38.5% in 2016, and further increased to 38.8% in 2017, which has adversely affected our inventory turnover days.

### *Trade receivables*

Our trade receivables represented receivables from customers for the sale of goods. We had trade receivables of approximately HK\$15.9 million, HK\$13.9 million and HK\$15.0 million as at 31 December 2015, 31 December 2016 and 31 May 2017, respectively, representing a decrease of approximately HK\$2.0 million, or 12.4% from 2015 to 2016 and an increase of approximately HK\$1.1 million, or 8.2% from 2016 to 2017. The changes in trade receivables was in line with the changes in our revenue during the Track Record Period.

An aged analysis of the trade receivables as at 31 December 2015, 31 December 2016 and 31 May 2017 is as follows:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>31 May</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one month	11,330	8,908	8,888
One to two months	3,076	3,119	4,766
Two to three months	787	1,304	738
Over three months	668	557	634
	15,861	13,888	15,026

A majority of our trade receivables as at 31 December 2015, 31 December 2016 and 31 May 2017 were aged within three months, as most of the credit period granted to our customers ranged from 30 to 90 days.

## FINANCIAL INFORMATION

The following table sets out an aging analysis of our trade receivables which were not considered to be impaired as at the dates indicated:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>31 May</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	14,848	13,331	14,464
Less than one month past due	971	535	424
One to three months past due	42	22	138
	15,861	13,888	15,026

Trade receivables that were neither past due nor impaired related to receivables from customers with no recent history of default. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at Latest Practicable Date, HK\$15.0 million, or 100% of the balances as at 31 May 2017 had been subsequently settled.

The following table sets out the turnover days of our trade receivables for the periods indicated:

	<b>For the year ended</b>		<b>For the</b>
	<b>31 December</b>		<b>five months</b>
	<b>2015</b>	<b>2016</b>	<b>ended</b>
	<b>Days</b>	<b>Days</b>	<b>31 May</b>
	<b>Days</b>	<b>Days</b>	<b>2017</b>
	<b>Days</b>	<b>Days</b>	<b>Days</b>
Trade receivables turnover (days)	76.6	74.8	83.6

*Note:* Calculated as the average of the beginning and ending balance of trade receivables, net of provision on impairment, for the year divided by revenue for the year, multiplied by the number of days in the period (365 days for the two years ended 31 December 2016, respectively, and 151 days for the five months ended 31 May 2017).

Our number of trade receivables turnover days remained stable at approximately 76.6 days for the year ended 31 December 2015 and approximately 74.8 days for the year ended 31 December 2016. Our average trade receivable turnover days increased from approximately 74.8 days for the year ended 31 December 2016 to approximately 83.6 days for the five months ended 31 May 2017 primarily due to the increase in sales to our trading customers in HK and overseas market. We have strong business relationships with our major customers ranging from approximately one to 18 years, respectively. Please refer to the section headed “Business — Sales and Marketing” in this prospectus for further details about our customers. Our directors confirmed that there was no termination of major contracts and material default that was due to fault of our Group during the Track Record Period and up to the Latest Practicable Date.

## FINANCIAL INFORMATION

Trade receivables amounting to approximately HK\$5.0 million, HK\$6.4 million and HK\$7.1 million as at 31 December 2015, 31 December 2016 and 31 May 2017 were pledged as security for our Group's bank facilities.

### *Prepayments, deposits and other receivables*

Our prepayments mainly comprised prepayments for office and staff insurance and purchase of raw materials during the Track Record Period. Our deposits mainly comprised deposit for factory facilities, rental deposit and utilities deposit. Other receivables mainly comprised advances from employees, and receivables from Foshan Zhihua. The following table sets forth a breakdown of prepayments, deposits and other receivables as at the dates indicated:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>31 May</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepaid lease payment for buildings	1,911	1,428	1,322
Other prepayments	391	1,234	3,091
Deposits	106	169	239
Other receivables	1,600	3,454	3,649
 Total	 4,008	 6,285	 8,301
 Portion classified as non-current assets	 (2,922)	 (1,226)	 1,095
 Current portion	 1,086	 5,059	 7,206

Our prepayments, deposits and other receivables increased from approximately HK\$4.0 million as at 31 December 2015 to approximately HK\$6.3 million as at 31 December 2016 and further increased to approximately HK\$8.3 million as at 31 May 2017. Such fluctuation was primarily due to the combined effect of the increase in amount due from Foshan Zhihua of approximately HK\$3.3 million as at 31 December 2016 and the increase in prepayment of listing expenses of approximately HK\$2.8 million as at 31 May 2017.

### *Amount due from a related company*

Our amount due from a related company was approximately HK\$97.0 million, HK\$63.1 million and HK\$70.2 million as at 31 December 2015, 31 December 2016 and 31 May 2017, respectively. Such an outstanding amount, representing advances to Jinxin China, was used for the personal use of Mr. Wong. It was non-trade in nature, unsecured, interest-free and repayable on demand and was fully settled in November 2017. Such settlement sum will be used as our working capital.

## FINANCIAL INFORMATION

As at 30 September 2017, our amount due from Jinxin China was approximately HK\$22.2 million whereas our bank facilities (including overdraft facilities) amounted to approximately HK\$37.9 million, of which approximately HK\$37.7 million had been utilised, and our cash and cash equivalents were approximately HK\$0.4 million as at 30 September 2017. Even if our amount due from Jinxin China was fully settled by 30 September 2017, our Group would intend to use such settlement sum from Jinxin China as its working capital. Accordingly, such settlement sum from Jinxin China would not be able to facilitate the implementation of our future plans as stated in the section headed “Future Plans and Use of Proceeds” of this prospectus. Our Group will not advance to Mr. Wong, Jinxin China nor connected persons upon Listing.

### *Trade payables*

Our trade payables primarily represented amounts payable to our third-party suppliers for raw materials and service providers in relation to yarn production and dyeing process during the Track Record Period. The following table sets forth our trade payables as at 31 December 2015, 31 December 2016 and 31 May 2017:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>31 May</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade Payables	6,971	8,538	10,511

Our trade payables increased by approximately HK\$1.6 million, or approximately 22.5%, from approximately HK\$7.0 million as at 31 December 2015 to HK\$8.5 million as at 31 December 2016, which was primarily due to the incurrence of processing fee for dyeing of our sewing threads for the year ended 31 December 2016, arising from cessation of our dyeing facilities. Our trade payables further increased by approximately HK\$2.0 million, or approximately 23.1%, from approximately HK\$8.5 million as at 31 December 2016 to HK\$10.5 million as at 31 May 2017, which was consistent with the increase in processing fee in cost of sales by approximately HK\$1.8 million, or 68.0% from five months ended 31 May 2016 to five months ended 31 May 2017.

The following table sets forth a summary of ageing of our trade payables based on invoice date at the end of each reporting period:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>31 May</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one month	2,343	2,622	2,750
One to two months	1,816	2,063	1,619
Two to three months	901	938	1,233
Over three months	1,911	2,915	4,909
	6,971	8,538	10,511

## FINANCIAL INFORMATION

Credit terms granted to us by our suppliers vary from contract to contract. Our suppliers, on average, grant us a credit period of 30 days to 90 days upon the issue of an invoice. As at 31 December 2015, 31 December 2016 and 31 May 2017, the amounts due within 90 days accounted for approximately 72.6%, 65.9% and 53.3% of our trade payables, respectively. The trade payables due over 90 days as at 31 December 2015, 31 December 2016 and as at 31 May 2017 were approximately HK\$1.9 million, HK\$2.9 million and HK\$4.9 million, respectively. The trade payables due over 90 days as at 31 December 2016 and 31 May 2017, amounting to HK\$2.9 million and HK\$4.9 million, respectively, included an amount of approximately HK\$1.2 million and HK\$2.4 million as at 31 December 2016 and 31 May 2017 respectively, due to a subcontractor in relation to dyeing, which they have granted us a longer credit period for our strong and trustworthy brand image.

The following table sets out the turnover days of trade payables for the periods indicated:

	<b>For the year ended</b>		<b>For the five</b>
	<b>31 December</b>		<b>months</b>
	<b>2015</b>	<b>2016</b>	<b>ended</b>
	<b>Days</b>	<b>Days</b>	<b>31 May</b>
			<b>2017</b>
			<b>Days</b>
Trade payables turnover days	49.0	62.0	85.7

*Note:* Calculated as the average of beginning and ending trade payables balance for the period, divided by cost of sales for the period, multiplied by the number of days in the period (365 days for the two years ended 31 December 2016 and 151 days for the five months ended 31 May 2017).

Our trade payables turnover days for the two years ended 31 December 2016 and the five months ended 31 May 2017 were approximately 49.0 days, 62.0 days and 85.7 days respectively, calculated on the basis of total cost of sales of approximately HK\$56.6 million, HK\$45.6 million and HK\$16.8 million, respectively, for the corresponding periods. The increase of trade payable turnover days were due to (i) the increased number of suppliers; and (ii) the extension to a longer credit period for those long-standing suppliers. Our Directors consider that there was no liquidity problem for our Group as the trade payables' turnover days during the Track Record Period were generally within the credit period.

As at the Latest Practicable Date, approximately HK\$6.8 million, or 65.1% of our trade payables had been subsequently settled.

### ***Other payables and accruals***

Our other payables and accruals mainly represented accruals for staff-related expenses, including salary and social insurance payable. Our accruals also included advance from customers, audit fee, insurance, rental and utility payment, listing expenses, tax payables and other miscellaneous accrued expenses.

## FINANCIAL INFORMATION

The following table sets out the breakdown of our other payables and accruals as at the dates indicated:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>31 May</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other payables	440	205	795
Accruals	4,041	4,060	8,721
Salary and welfare payable	5,568	4,785	4,018
Advance from customers	1,078	—	—
Other tax payable	<u>1,688</u>	<u>714</u>	<u>933</u>
 Total	 <u><u>12,815</u></u>	 <u><u>9,764</u></u>	 <u><u>14,467</u></u>

Our other payables and accruals decreased by approximately HK\$3.1 million, or approximately 23.8%, from approximately HK\$12.8 million as at 31 December 2015 to approximately HK\$9.8 million as at 31 December 2016, which was primarily due to a combination of the following reasons: (i) the decrease in advance from customers by approximately HK\$1.1 million; (ii) the decrease in tax payables of approximately HK\$1.0 million, primarily resulting from the decrease in overall revenue; and (iii) the decrease in the provisions for the underpaid amounts of salary, social insurance contribution and housing provident fund contribution of approximately HK\$0.8 million. Such decrease was resulted from the decrease in our Group's headcount.

Our other payables and accruals increased by approximately HK\$4.7 million, or approximately 48.2%, from approximately HK\$9.8 million as at 31 December 2016 to HK\$14.5 million as at 31 May 2017, which was primarily due to the increase in accruals of listing expense of approximately HK\$4.7 million as at 31 May 2017.

### ***Available-for-sale investment***

Available-for-sale investment referred to the investment in life insurance policy for our executive director. There are no fixed maturity and no market price for such equity investment, and our Group neither acquired the policy for the purpose of selling it in the near term nor designated it as a financial asset at fair value through profit and loss. Our Group classified the life insurance policy as an available-for-sale investment, with the premium paid as initial fair value and the surrender value as the estimated fair value as at the end of each reporting period. The insurance policy is pledged to banks for banking facilities.

## FINANCIAL INFORMATION

The gross changes in fair value of our Group's available-for-sale investment amounted approximately to negative HK\$1.2 million, negative HK\$1.2 million and HK\$87,000, recognised in other comprehensive income for the year ended 31 December 2016 and five months ended 31 May 2016 and 2017. The management of our Group has determined that no impairment was recognised in the combined statements of profit and loss and other comprehensive income for the Track Record Period considering the fact that the decrease in the fair value of our Group's available-for-sale investment was derived from the surrender compensations which would decline gradually year by year and be fully exempted in 2035.

Prior to our purchase of any available-for-sales investments, our finance department is required to compile an investment report providing for information such as the investment target, investment term, investment amount, expected return rate, source of capital, investment return analysis and investment risk analysis.

Ms. Liu Jinghui, our financial controller (“**Financial Controller**”) will then further evaluate the return and risks associated with each particular available-for-sales investments. After Ms. Liu Jinghui evaluates and provides her comments, the report will be submitted to Mr. Wong for his final approval. We are only allowed to invest in available-for-sales investments issued by well recognized publicly listed financial institutions.

Ms. Liu Jinghui is also responsible for reviewing the accounting record, capital movement and operating results of our available-for-sales investments on a monthly basis or at any time she thinks that is necessary and reporting her review comments to Mr. Wong. If necessary, our Audit Committee may also conduct an audit and report to the Board. The Board is responsible for setting further policies and requirements in respect of the operation and risk control of our available-for-sales investments.

We have strictly adhered to our investment policies and will continue to monitor our risks and returns associated with our available-for-sales investments. Ms. Liu Jinghui has been and will continue to be responsible for monitoring our overall financial investments to ensure that we comply with our investment policies with the support of our finance department.

Ms. Liu Jinghui has over 23 years of experience in accounting and related financial management. Our independent non-executive Directors, Mr. To King Yan Adam and Mr. Sung Alfred Lee Ming also have prior experience in the fields of accounting, finance and corporate management. We believe that the experience of our independent non-executive Directors will allow them to assist us to review our compliance with the investment policies and assess the risk associated with our investments.

## FINANCIAL INFORMATION

### INDEBTEDNESS

#### Bank borrowings

Our Group's borrowings represented financing provided by our bankers in the form of bank loans and bank overdrafts during the Track Record Period up to 30 September 2017 for determining our Group's indebtedness, the breakdown of which is as follows:

	<b>As at 31 December</b>		<b>As at</b>	<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>31 May</b>	<b>30 September</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2017</i>	<i>2017</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans	52,300	31,913	31,961	29,303
Bank overdrafts	5,992	5,017	8,601	8,354
	58,292	36,930	40,562	37,657

All interest-bearing bank borrowings, which are either due for repayment within one year or repayable after one year but contain a repayment on demand clause, and accordingly, are classified as current liabilities. Our interest-bearing bank borrowings amounted to HK\$58.3 million, HK\$36.9 million, HK\$40.6 million and HK\$37.7 million, respectively, as at 31 December 2015, 31 December 2016, 31 May 2017 and 30 September 2017.

The following table sets forth the ranges of effective interest rates of our bank loan and overdrafts repayable on demand as at the dates indicated:

	<b>As at 31 December</b>		<b>As at</b>	<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>31 May</b>	<b>30 September</b>
			<b>2017</b>	<b>2017</b>
Effective interest rates: (%)				
Bank loans-secured	2.5 to 8.5	2.5 to 6.5	3.3 to 6.0	3.3 to 6.0
Bank overdrafts-secured	5.3 to 6.3	5.3 to 6.0	6.0	6.0

Our Group's bank facilities (including overdraft facilities) amounted to approximately HK\$59.3 million, HK\$40.4 million and HK\$41.1 million as at 31 December 2015, 31 December 2016 and 31 May 2017, respectively, of which approximately HK\$58.3 million, HK\$36.9 million and HK\$40.6 million had been utilised as at 31 December 2015, 31 December 2016 and 31 May 2017, respectively.

All of our other bank loans and overdrafts during the Track Record Period and up to the latest date for liquidity disclosure were secured by our Group's assets and related parties. Please refer to Note 21 and Note 32 to the Accountants' Report in Appendix I to this prospectus for further discussion. In addition, certain of our bank loans are guaranteed under the special loan guarantee scheme sponsored by the Government of Hong Kong.



## FINANCIAL INFORMATION

As at 30 September 2017, the latest practicable date for liquidity disclosure, the Group's bank facilities (including overdraft facilities) amounted to HK\$37.9 million, of which HK\$37.7 million had been utilized.

We intend to continue to finance portions of our working capital and 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.

Our Directors confirm that the agreements under our banking borrowings do not contain any covenant that will have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future. Our Directors further confirm that we had no material defaults in payment of trade and non-trade payables and bank borrowings, nor did we breach any financial covenants during the Track Record Period. Our Directors further confirm that during the Track Record Period and up to the Latest Practicable Date, we did not experience any difficulty in obtaining credit facilities, or withdrawal of facilities, request for early repayment, default in payments or breach of financial covenants of bank borrowings.

### COMMITMENTS

#### Operating lease commitments

Our Groups leases certain office properties, factory and land, production machinery and office equipment under non-cancellable operating lease agreements, with leases for terms ranging from one to 20 years.

Our Group's operating lease commitments amounted to approximately HK\$25.5 million, HK\$10.6 million and HK\$10.0 million as at 31 December 2015, 31 December 2016 and 31 May 2017, respectively. The following table sets out the future minimum lease payments payable by our Group as at the dates indicated under non-cancellable operating leases.

	<b>As at 31 December</b>		<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>31 May</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	3,003	1,866	1,909
Within two to five years	11,235	6,303	6,272
After five years	11,224	2,416	1,781
	25,462	10,585	9,962

#### Capital commitments

As at the Latest Practicable Date, other than operating lease commitments, our Group had no contractual capital commitments.

## FINANCIAL INFORMATION

### Off-balance sheet commitments and arrangements

As at 31 May 2017, being the date of our most recent financial statements, we did not enter into any off-balance sheet transactions.

### DIVIDENDS

During the Track Record Period, we did not declare any dividends. We currently have neither a pre-determined dividend payout ratio nor any dividend policy. The payment and amount of any future dividends will be at the sole discretion of our Board of Directors and will also depend on factors such as our results of operations, cash flow, capital requirements, general financial condition, future prospects and other factors that our Board of Directors deem relevant. Any final dividend for a financial year will be subject to Shareholders' approval. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares.

Dividends may be paid only out of our Company's distributable reserves as permitted under the relevant laws. There can be no assurance that our Company will be able to declare or distribute in the amount set out in any plan of our Board or at all. The past dividend distribution records may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future.

### LISTING EXPENSES

Our estimated listing expenses primarily consist of professional fees, underwriting commission and fees incurred in connection with our Listing. Assuming the Offer Size Adjustment Option is not exercised and assuming the Offer Price of HK\$0.313 per Offer Shares, being the mid-point of the indicative Offer Price range, listing expenses to be borne by our Company, which are non-recurring in nature, are estimated to be approximately HK\$26.3 million, of which approximately HK\$6.9 million is directly attributable to the issue of new Offer Shares and to be accounted for as a deduction from equity, and approximately HK\$19.4 million has been or is expected to be reflected in our combined statements of comprehensive income. Approximately HK\$6.6 million and HK\$4.3 million of the listing expenses in relation to services already performed has been reflected in the combined statements of comprehensive income of our Group for the year ended 31 December 2016 and the five months ended 31 May 2017, respectively, and the remaining amount of approximately HK\$8.5 million is expected to be reflected in the combined statements of comprehensive income of our Group for the year ending 31 December 2017.

The listing expenses mentioned above are the latest practicable estimate for reference only and the estimated listing expenses are subject to adjustments based on the actual amount incurred or to be incurred. Our results of operations for the year ending 31 December 2017 is expected to be adversely affected by the non-recurring listing expenses in connection with the Listing.

## FINANCIAL INFORMATION

### SUMMARY OF KEY FINANCIAL RATIOS

The table below sets out our key financial ratios during the Track Record Period:

Financial ratios	Formulae	As at 31 December		As at
		2015	2016	31 May 2017
<b>Profitability ratios</b>				
1. Profit margins				
a. Gross profit margin	Gross profit for the period/turnover x 100%	31.7%	37.2%	35.7%
b. Net profit/(loss) margin before interest and tax	(Profit/(loss) before tax + finance costs)/turnover x 100%	11.8%	4.8%	(4.3%)
c. Net profit/(loss) margin	Profit/(loss) for the period/turnover x100%	5.6%	(0.7%)	(9.5%)
2. Return on equity				
a. Return on equity	Profit/(loss) for the period/((total equity at the beginning of the period +total equity at the end of the period)/2) x 100%	7.0%	(0.7%)	(4.1%)
b. Return on total assets	Profit/(loss) for the period/((total assets at the beginning of the period +total assets at the end of the period)/2) x 100%	3.3%	(0.4%)	(2.0%)
<b>Liquidity ratios</b>				
1. Liquidity ratios				
a. Current ratio	Current assets/Current liabilities	1.6	1.9	1.7
b. Quick ratio	(Current assets – inventories)/Current liabilities	1.5	1.7	1.6
2. Turnover ratios				
a. Inventories turnover days	Average inventories/Cost of sales x 365 days/151 days	71.9	77.5	82.7
b. Receivables turnover days	Average trade receivables/Turnover x 365 days/151 days	76.6	74.8	83.6
c. Payables turnover days	Average trade payable/Cost of sales x 365 days/151 days	49.0	62.0	85.7
<b>Capital adequacy ratios</b>				
1. Gearing ratio	(Bank loans + amounts due to related parties + other loans)/Total equity x 100%	86.5%	60.2%	67.4%
2. Debt to net worth ratio				
a. Net debt to equity ratio	(Bank borrowings + amounts due to related parties + other loans – cash and cash equivalents)/Total equity x 100%	84.0%	58.9%	65.8%
b. Interest coverage (times)	(Profit/(loss) before tax + Finance costs)/Finance costs	3.0	1.2	N/A

## FINANCIAL INFORMATION

### Gross profit margin

The improvement in our gross profit margin from 31.7% for the year ended 31 December 2015 to 37.2% for the year ended 31 December 2016 was mainly attributable to the reduction in cost of sales as a result of the cessation of dyeing facilities and the foreign exchange rate impact when translating revenue and cost of sales from Renminbi to Hong Kong Dollars. If the exchange rate impact were to be excluded, our gross profit margin for the year ended 31 December 2016 would be 35.4%. Our gross profit margin further increased to 35.7% for the five months ended 31 May 2017.

### Net profit/(loss) margin

The decrease in our net profit margin from 5.6% for the year ended 31 December 2015 to negative 0.7% for the year ended 31 December 2016 was mainly due to the one-off severance payment of approximately HK\$1.9 million in associate with the closure of dyeing facilities and the non-recurring listing expenses amounting to approximately HK\$6.6 million relating to our Company's Listing. If we excluded the above mentioned non-recurring expenses, our net profit margin increased to 10.9% for the year ended 31 December 2016. Our net profit margin further decreased to negative 9.5% due to the increase in listing expense of HK\$4.3 million.

### Return on equity

The decrease in return on equity from 7.0% for the year ended 31 December 2015 to negative 0.7% for the year ended 31 December 2016 was mainly due to the deterioration of our profitability during the same period as indicated by the decline of net profit margin from 5.6% for the year ended 31 December 2015 to negative 0.7% for the year ended 31 December 2016. Our return on equity further decreased to negative 4.1% for the five months ended 31 May 2017.

### Return on total assets

The decreasing trend of return on total assets from the year ended 31 December 2015 to the year ended 31 December 2016 was consistent with the declining trend of return on equity and net profit/(loss) margin from the year ended 31 December 2015 to the year ended 31 December 2016. Such decrease was due to the percentage decrease in profit for the year ended 31 December 2016 is larger than the percentage decrease in total assets in the same period. Our return on total assets further decreased to negative 2.0% for the five months ended 31 May 2017.

### Current ratio

Our current ratio improved throughout the Track Record Period from 1.6 as at 31 December 2015 to 1.9 as at 31 December 2016 as a result of good management of working capital. Current ratio declined to 1.7 as at 31 May 2017. Such decline was mainly due to the increase in the balances of other payables and accruals and interest-bearing bank borrowings.

### Quick ratio

Our quick ratio improved from 1.5 as at 31 December 2015 to 1.7 as at 31 December 2016, and further declined slightly to 1.6 as at 31 May 2017.

## FINANCIAL INFORMATION

### Net debt to equity ratio

Our net debt to equity ratio was approximately 84.0%, 58.9% and 65.8% as at 31 December 2015 and 2016 and 31 May 2017, respectively. The decrease in net debt to equity ratio by 25.1% from 84.0% as at 31 December 2015 to 58.9% as at 31 December 2016 was mainly due to the decrease in interest-bearing bank borrowings by approximately HK\$21.4 million, as we used excess cash to repay bank loans in order to reduce finance costs. The increase in net debt to equity ratio by 6.9% from 58.9% as at 31 December 2016 to 65.8% as at 31 May 2017 was mainly due to the increase in the balance of interest-bearing bank borrowings by approximately HK\$3.6 million.

### Interest coverage

Our interest coverage was approximately 3.0 and 1.2 for the two years ended 31 December 2016, respectively. The decreasing trend of interest coverage was mainly due to the combined effect of decrease in profit before interest and tax by approximately HK\$6.3 million, or 64.0%, and a slight decrease in finance costs by approximately HK\$0.3 million, or 10.7%.

## QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

### Credit risk

Our credit risk is primarily attributable to our trade receivables. We have a credit policy in place to ensure that our exposure to credit risk is monitored on an ongoing basis.

We perform individual credit evaluations for all customers requiring credit over a certain amount. Our trade receivables are normally due within 30–90 days from the date of billing. We normally do not obtain collateral from customers.

Our exposure to credit risk is influenced mainly by the individual characteristics of our customers. As such, significant concentrations of credit risk primarily arise when we have significant exposure to individual customers. As at 31 December 2015, 31 December 2016 and 31 May 2017, 24.1%, 24.8% and 33.5%, respectively, of our total trade receivables were due from our largest customer.

### Liquidity risk

Our policy is to monitor our liquidity requirements on a regular basis to ensure that we maintain sufficient reserves of cash to meet our liquidity requirements in the short and longer term.

## FINANCIAL INFORMATION

The following table sets out our Group's financial liabilities as at the end of the relevant periods based on the contractual undiscounted payments:

	<b>31 December 2015</b>		
	<b>On demand</b>	<b>Within 1</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>year</i>	<i>HK\$'000</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest-bearing bank borrowings	58,292	—	58,292
Trade payables	—	6,971	6,971
Other payables and accruals	30	1,012	1,042
Derivative financial instrument	—	1,143	1,143
	<u>58,322</u>	<u>9,126</u>	<u>67,448</u>
	<u>58,322</u>	<u>9,126</u>	<u>67,448</u>
	<b>31 December 2016</b>		
	<b>On demand</b>	<b>Within 1</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>year</i>	<i>HK\$'000</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest-bearing bank borrowings	36,930	—	36,930
Trade payables	—	8,538	8,538
Other payables and accruals	160	1,738	1,898
	<u>37,090</u>	<u>10,276</u>	<u>47,366</u>
	<u>37,090</u>	<u>10,276</u>	<u>47,366</u>
	<b>31 May 2017</b>		
	<b>On demand</b>	<b>Within 1</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>year</i>	<i>HK\$'000</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest-bearing bank borrowings	40,562	—	40,562
Trade payables	—	10,511	10,511
Other payables and accruals	136	7,044	7,180
	<u>40,698</u>	<u>17,555</u>	<u>58,253</u>
	<u>40,698</u>	<u>17,555</u>	<u>58,253</u>

### Interest rate risk

We are exposed to the risk of change in interest rate related to our bank borrowings. We currently do not have any instruments to hedge against the fair value interest rate risk.

We are exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly interest bearing pledged bank deposits, bank balances and floating-rate bank borrowings. We do not have an interest rate hedge policy. However, management will consider hedging significant interest rate risk should the need arise.

## FINANCIAL INFORMATION

### Commodity price risk

We are engaged in the trading of textile-related products which include textile-related commodities. The prices of textile-related commodities are influenced by international and domestic supply and demand conditions. A significant change in the prices of textile-related commodities could adversely affect our financial performance. Please refer to the section headed “Risk Factors — Fluctuations of raw material prices may adversely affect our profitability” of this prospectus for details of risk in fluctuation of prices of raw materials.

### Foreign exchange risk

We are exposed to foreign currency risk when we enter into transactions which are not denominated in our functional currency. Such exposure mainly relates to the distribution and sales of our products and purchases of raw materials in the PRC. Approximately 58.5%, 53.3% and 49.8% of our sales were denominated in Renminbi whilst approximately 100.0%, 97.9% and 95.6% of inventory costs were denominated in Renminbi during the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively.

We currently do not have a foreign currency hedging policy. Our Director, Mr. Wong, and our deputy general manager of Guangzhou Xinhua, Mr. She, are responsible for monitoring foreign exchange exposure closely and performing regular reviews of our net foreign exchange exposure. Both Mr. Wong and Mr. She possess extensive experience in accounting and finance. For details of Mr. Wong’s and Mr. She’s relevant experience, please refer to the section headed “Directors and Senior Management” of this prospectus. Our Group will consider hedging foreign currency exposure should the need arise. For further details of the impact of fluctuation of Renminbi on our financial results, please refer to note 36 to the Accountants’ Report in Appendix I to this prospectus for the sensitivity analysis.

### RELATED PARTY TRANSACTIONS

During the Track Record Period, our Directors are of the view that the following companies are related parties of our Group:

<b>Name of related parties</b>	<b>Principal activities as at the Latest Practicable Date</b>	<b>Ownership as at Latest Practicable Date</b>
Jinxin China	Investment holding	Company controlled by Controlling Shareholder
Golden New Power Investment Limited	Investment holding	Company controlled by Controlling Shareholder
Genplas Industrial Company, Limited	Investment holding	Company controlled by Controlling Shareholder

## FINANCIAL INFORMATION

Significant related party transactions during the Relevant Periods are as follows:

	<b>Year ended 31 December</b>		<b>Five months ended 31 May</b>	
	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Management fee	1,050	423	423	—

*Note:* The management fee was charged by Jinxin China Limited (“Jinxin”), a related company controlled by Mr. Wong, in respect of its market development and customer management services provided to the Group. The rate of the management fee was determined primarily taking into consideration the labour costs incurred in the delivery of the relevant services. The management services were terminated in June 2016.

Compensation of key management personnel of the Group:

Details of the compensation of key management personnel of the Group, who are the directors, are disclosed in note 8 to the Accountants’ Report in Appendix I to this prospectus.

Provision of guarantees by related parties:

	<b>As at 31 December</b>		<b>As at</b>
	<b>2015</b>	<b>2016</b>	<b>31 May</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans guaranteed by:			
Mr. Wong	22,460	36,930	40,562
Golden New Power Investment Limited	28,226	—	—
Mr. Wong and Genplas Industrial Company, Limited	7,606	—	—
	<u>58,292</u>	<u>36,930</u>	<u>40,562</u>

The above guarantees provided by the related parties would be subsequently released upon listing.

Our Directors are of the view that the aforesaid related party transactions were conducted on an arm’s length basis and did not distort our financial results during the Track Record Period or cause our historical results to be unreflective of our future performance.



## FINANCIAL INFORMATION

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of the unaudited pro forma adjusted combined net tangible assets of the Group, has been prepared, on the basis of the notes set out below, to illustrate the effect of the Listing on the combined net tangible assets of the Group attributable to owners of the Company as at 31 May 2017 as if the Listing had taken place on that date. The unaudited pro forma adjusted combined net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to owners of the Company had the Listing been completed as at 31 May 2017 or at any future dates. It is prepared based on the audited combined net tangible assets of the Group attributable to owners of the Company as at 31 May 2017 as set out in the Accountants' Report in Appendix I to this Prospectus, and adjusted as described below.

	<b>Audited combined net tangible assets of the Group attributable to owners of the Company as at 31 May 2017 (HK\$'000) (Note 1)</b>	<b>Estimated net proceeds from the Share Offer (HK\$'000) (Note 2)</b>	<b>Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company (HK\$'000)</b>	<b>Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per share HK\$ (Note 3)</b>
Based on the Offer Price of HK\$0.25 per Share	60,169	34,997	95,166	0.119
Based on the Offer Price of HK\$0.375 per Share	60,169	59,122	119,291	0.149

- (1) The audited combined net tangible assets of the Group attributable to the owners of the Company is based on the combined total net assets attributable to the owner of the Company as of 31 May 2017 as set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Share Offer are based on 200,000,000 Offer Shares at the indicative Offer Price of HK\$0.25 and HK\$0.375, being the low-end and high-end of the stated offer price range, per Share, after deduction of the underwriting fees and other related expenses to be incurred by the Company (excluding listing expenses of approximately HK\$10.9 million which have been accounted for prior to 31 May 2017). It does not take into account of any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option, the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares referred to in the section headed "Share Capital — General Mandate to Repurchase Shares".

## **FINANCIAL INFORMATION**

- (3) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to the owners of the Company per Share is calculated based on 800,000,000 Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue. It does not take into account of any Shares which may be allotted and issued pursuant to the exercise of Offer Size Adjustment Option, the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares referred to in the section headed “Share Capital — General Mandate to Repurchase Shares”.
- (4) No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 May 2017 to reflect any trading result or other transactions of the Group entered into subsequent to 31 May 2017.

### **DISCLOSURE REQUIREMENT UNDER CHAPTER 17 OF THE GEM LISTING RULES**

Our directors confirm that, except as otherwise disclosed in this prospectus, as at the Latest Practicable Date, they are not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

### **NO MATERIAL ADVERSE CHANGE**

Our directors confirm that, since 31 May 2017 (being the date to which the latest audited combined financial information of our Group is prepared) and up to the date of this prospectus, there had been no material adverse change in our business, financial condition and market condition in the industry in which we operate would materially affect the information shown in our combined financial information included in the Accountants’ Report set forth in Appendix I to this prospectus.

## FUTURE PLANS AND USE OF PROCEEDS

### FUTURE PLANS

For further details of our business strategies and future plans, please refer to the section headed “Business — Our business strategies” of this prospectus.

### REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

The net proceeds of the Share Offer will strengthen our capital base and provide funding for carrying out our business strategies and implementing our future plans as set out in this section.

Assuming the Offer Price is determined at HK\$0.313 (being the mid-point of the Offer Price range), the aggregate amount of net proceeds (the “**Net Proceeds**”) of the Share Offer to be received by our Company after deducting the underwriting commission and estimated expenses payable by our Company is estimated to be approximately HK\$36.3 million (assuming the Offer Size Adjustment Option is not exercised). Our Directors currently intend to apply such proceeds in the following manner:

- (a) approximately HK\$18.0 million, representing approximately 50.0% of the Net Proceeds will be used for the upgrading of our production line for the waxing and winding of our 100% spun polyester sewing threads for industrial use;
- (b) approximately HK\$7.0 million, representing approximately 19.0% of the Net Proceeds will be used for the upgrading of our production line for the waxing and winding of our 100% spun polyester sewing threads for domestic use;
- (c) approximately HK\$3.8 million, representing 10.0% of the Net Proceeds will be used for the acquisition of cone winding machines for our 100% spun polyester sewing threads;
- (d) approximately HK\$3.3 million, representing approximately 9.0% of the Net Proceeds will be used for the acquisition of new machinery for the production of nylon threads;
- (e) approximately HK\$1.0 million, representing approximately 3.0% of the Net Proceeds will be used for the setting up of a sales office in Zhejiang province; and
- (f) approximately HK\$3.2 million, representing approximately 9.0% of the Net Proceeds will be used for the working capital and other general corporate purposes of our Group.

We plan to upgrade our production lines for our 100% spun polyester sewing threads as our existing machines have become outmoded after many years of operation. The upgrading of our production line for our 100% spun polyester sewing threads will be done through the acquisition of new machinery for both our 100% spun polyester sewing threads for industrial use and our 100% spun polyester sewing threads for domestic use. Firstly, in respect of our 100% spun polyester sewing threads for industrial use, we plan to acquire new machines for Production line 2 for the waxing and winding of our 100% spun polyester sewing threads for industrial use in order to increase the relevant production capacity.

## FUTURE PLANS AND USE OF PROCEEDS

During the Track Record Period, the aggregate designed production capacity of Production line 2 for the waxing and winding process of our 100% spun polyester sewing threads for industrial use, which is based on our management's estimate of the length of products that our Guangzhou Production Facilities are capable of producing on an annual basis, was approximately 30.3 million km, 25.4 million km and 8.7 million km for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively, based on the production for the 18 hours per day, comprising two shifts, and 244 days per year. Considering the production capacity of the relevant machines, we have the historical practice of operating two shifts per day for the production of our 100% spun polyester sewing threads for industrial use. Our machines for the production of 100% spun polyester sewing threads for industrial use have become less efficient after many years of operation and as a result, required frequent maintenance and repairs, which led to a decline in their designed production capacity. Among the three machine groups in Production line 2, which performs the waxing and winding for 100% spun polyester sewing threads for industrial use, waxing and winding machine group A had reflected a significant decrease in the designed production capacity during the Track Record Period. The designed production capacity of waxing and winding machine group A was approximately 21.2 million km, 16.3 million km and 5.2 million km, respectively, for the two years ended 31 December 2016 and the five months ended 31 May 2017, representing a monthly average of approximately 1.8 million km, 1.4 million km and 1.0 million km, respectively for the corresponding periods. With reference to the monthly average designed production capacity, the designed production capacity of waxing and winding machine group A decreased by approximately 0.4 million km, or approximately 22.2%, from approximately 1.8 million km for the year ended 31 December 2015 to approximately 1.4 million km for the year ended 31 December 2016. The monthly average further decreased by approximately 0.4 million km, or approximately 28.6%, from 1.4 million km for the year ended 31 December 2016, to approximately 1.0 million km for the five months ended 31 May 2017. Taking into account such a decline, we had to allocate more manpower by adding a nine-hour night shift each day in order to make sure that our production volume is sufficient to meet our customers' demand despite the declining production capacity of our existing machines in Production line 2. The addition of a second shift is capable of increasing the designed production capacity in principle. However, according to the CIC Report, due to the increasing living standard and rising health awareness, workers in Guangdong province are generally less willing to choose the night shift. Even though there is no regulation in the province on mandatory night shift allowance, employers usually pay certain allowance to motivate night shift workers, resulting in higher labour costs. Further, according to the CIC Report, average annual labour costs in Guangdong province are expected to increase at a CAGR of 9.9% between 2016 and 2021. During the Track Record Period, the average salaries of a night shift worker were 21.3% higher than those of a day shift worker. Our Directors are of the view that in addition to rising wages, we would experience difficulty in hiring workers for the night shift. Hence, to facilitate our long-term business plan, we intend to upgrade our Production line 2 by acquiring new waxing and winding machines for our 100% spun polyester sewing threads for industrial use for waxing and winding machine group A.

## FUTURE PLANS AND USE OF PROCEEDS

Our Group expects that the upgrading of our Production line 2 for our 100% spun polyester sewing threads for industrial use would save an amount of our cost of sales. To the best estimation of our Directors, the new waxing and winding machines for waxing and winding machine group A will increase the relevant aggregate designed production capacity to approximately 28.5 million km per year (assuming the production is for nine hours per day and 244 days per year). There will be an increase in the aggregate designed production capacity for Production line 2 should our waxing and winding machine group A be replaced with new machines. Accordingly, one day shift for nine hours each day would be able to achieve the production volume accordingly. We would no longer need to operate the relevant production line with two shifts. As a result, there will be no need for us to hire night shift workers, which will result in cost savings in our staff costs. With an increase in our workers' productivity, our day shift workers will benefit from an increase in their wages as they are calculated on a length-rate basis. Should our Production line 2 be operated with upgraded machinery, we expect that approximately HK\$826,000 will be saved on our cost of sales per year. Such upgrading of Production line 2 is expected to be in the amount of HK\$18 million. Assuming that the Offer Price is determined at the mid-point of the indicative Offer Price range, our Group intends to finance such upgrading with 50.0% of the Net Proceeds.

The table below sets out the designed production capacity of Production line 2 (waxing and winding for 100% spun polyester sewing threads for industrial use) before and after the proposed machinery upgrade and acquisition:

	<b>Before the proposed machinery upgrade and acquisition</b>			<b>After the proposed machinery upgrade and acquisition</b>
	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2016</b>	<b>Five months ended 31 May 2017</b>	<b>Annual designed production capacity</b>
	<b>Designed production capacity<sup>(1)</sup></b>	<b>Designed production capacity<sup>(1)</sup></b>	<b>Designed production capacity<sup>(1)</sup></b>	<b>Designed production capacity<sup>(2)</sup></b>
	<i>('000 km)</i>	<i>('000 km)</i>	<i>('000 km)</i>	<i>('000 km)</i>
Waxing and winding machine group A				
— Existing	21,241	16,295	5,179	N/A
— New	N/A	N/A	N/A	28,460 <sup>(3)</sup>
Waxing and winding machine group B	5,891	5,891	2,270	2,946
Waxing and winding machine group C	<u>3,188</u>	<u>3,188</u>	<u>1,228</u>	<u>1,594</u>
<b>Total</b>	<b><u><u>30,320</u></u></b>	<b><u><u>25,374</u></u></b>	<b><u><u>8,677</u></u></b>	<b><u><u>33,000</u></u></b>

## FUTURE PLANS AND USE OF PROCEEDS

*Notes:*

1. The designed production capacity of Production line 2 before the proposed machinery upgrade and acquisition is based on our management's estimate of the length of products that our workforce at our Guangzhou Production Facilities are capable of producing on an annual basis. The relevant designed production capacity is derived from the assumption that our Guangzhou Production Facilities are in production for 18 hours with two shifts per day and 244 days per year and 94 days for the five months ended 31 May 2017, with the planned number of production workers, planned production mix and the planned production capacity per worker per hour.
2. The designed production capacity of Production line 2 after the proposed machinery upgrade and acquisition is based on our management's estimate of the length of products that our workforce at our Guangzhou Production Facilities are capable of production on an annual basis after acquiring the relevant machinery to replace waxing and winding machine group A. The relevant designed production capacity is derived from the assumption that our Guangzhou Production Facilities will be in production for nine hours with one shift per day and 244 days per year, with the planned number of production workers, planned production mix and the planned production capacity per worker per hour.
3. Pursuant to our implementation plan, for the period from the Latest Practicable Date to 31 December 2017, for the six months ending 30 June 2018 and for the six months ending 31 December 2018, we will purchase four, two and two waxing and winding machines, respectively, in order to replace the existing waxing and winding machine group A in Production line 2. The designed production capacity of waxing and winding machine group A after the proposed machinery upgrade and acquisition is calculated on the basis of the full operation of all the eight waxing and winding machines to be acquired.

Secondly, in respect of our Production line 3 for the waxing and winding of 100% spun polyester sewing threads for domestic use, we plan to acquire new machines for the relevant waxing and winding process in order to increase the relevant production capacity. During the Track Record Period, the aggregate designed production capacity of Production line 3 for the waxing and winding process of our 100% spun polyester sewing threads for domestic use, which is based on our management's estimate of the length of products that our Guangzhou Production Facilities are capable of producing on an annual basis, was approximately 9.3 million km, 9.3 million km and 3.6 million km for the two years ended 31 December 2016 and the five months ended 31 May 2017, respectively based on the production for one shift of nine hours per day and 244 days per year. Considering the production capacity of the relevant machines, we have the historical practice of operating one shift per day for the production of our 100% spun polyester sewing threads for domestic use.

In respect of Production line 3, we have three machine groups to facilitate the operation. Among these three machine groups, our waxing and winding machine group D commenced operation in 1995. The machines from our waxing and winding machine group D, which had operated for 22 years, were purchased from a machine supplier in Germany. We had approached the machine supplier for the right parts and accessories for the relevant machines. However, since the production line for the necessary parts and accessories had ceased operation, we were not able to secure the parts and accessories we needed to maintain the designed production capacity for our waxing and winding machine group D. Our Directors believe that if the machines from our waxing and winding machine group D do not work properly, we would not be able to fix them and bring them back to workable condition because of the unavailability of relevant parts and accessories. Any suspension of the operation of our waxing and winding machine group D would affect our actual production volume of our 100% spun polyester sewing threads for domestic use. As a result, we may not be able to deliver our products to our customers in a timely manner, which could cause an impact to our relationship with our customers. As such, we need to acquire new machines for our waxing and winding machine group D in order to maintain the relevant designed production capacity.

## FUTURE PLANS AND USE OF PROCEEDS

Our Group expects that the upgrading of our Production line 3 for our 100% spun polyester sewing threads for domestic use would save an amount of our cost of sales. To the best estimation of our Directors, the new waxing and winding machines for waxing and winding machine group D will increase the relevant aggregate designed production capacity to approximately 3.1 million km per year (assuming the production is for nine hours per day and 244 days per year). If we acquire new machines for Production line 3, we would be able to have a saving of approximately HK\$175,000 of our cost of sales per year. Such upgrading is expected to be in the amount of HK\$7.0 million. Assuming that the Offer Price is determined at the mid-point of the indicative Offer Price range, our Group intends to finance such upgrading with 19.0% of the Net Proceeds.

The table below sets out the designed production capacity of Production line 3 (waxing and winding for 100% spun polyester sewing threads for domestic use) before and after the proposed machinery upgrade and acquisition:

	<b>Before the proposed machinery upgrade and acquisition</b>			<b>After the proposed machinery upgrade and acquisition</b>
	<b>Year ended 31 December</b>		<b>Five months ended</b>	<b>Annual</b>
	<b>2015</b>	<b>2016</b>	<b>31 May 2017</b>	<b>designed production capacity<sup>(2)</sup></b>
	<b>Designed production capacity<sup>(1)</sup></b>	<b>Designed production capacity<sup>(1)</sup></b>	<b>Designed production capacity<sup>(1)</sup></b>	<b>capacity<sup>(2)</sup></b>
	<i>('000 km)</i>	<i>('000 km)</i>	<i>('000 km)</i>	<i>('000 km)</i>
Waxing and winding machine group D				
— Existing	546	546	211	N/A
— New	N/A	N/A	N/A	3,057
Waxing and winding machine group E	8,225	8,225	3,169	4,354
Waxing and winding machine group F	<u>513</u>	<u>513</u>	<u>198</u>	<u>513</u>
<b>Total</b>	<u><u>9,284</u></u>	<u><u>9,284</u></u>	<u><u>3,578</u></u>	<u><u>7,924</u></u>

*Notes:*

- The designed production capacity of Production line 3 before the proposed machinery upgrade and acquisition is based on our management's estimate of the length of products that our workforce at our Guangzhou Production Facilities are capable of producing on an annual basis. The relevant designed production capacity is derived from the assumption that our Guangzhou Production Facilities are in production for nine hours with one shift per day and 244 days per year and 94 days for the five months ended 31 May 2017, with the planned number of production workers, planned production mix and the planned production capacity per worker per hour.

## FUTURE PLANS AND USE OF PROCEEDS

2. The designed production capacity of Production line 3 after the proposed machinery upgrade and acquisition is based on our management's estimate of the length of products that our workforce at our Guangzhou Production Facilities are capable of producing on an annual basis after acquiring the relevant machinery to replace the existing machinery in waxing and winding machine group D in Production line 3. The relevant designed production capacity is derived from the assumption that our Guangzhou Production Facilities will be in production for nine hours with one shift per day and 244 days per year, with the planned number of production workers, planned production mix and the planned production capacity per worker per hour.

To facilitate our Production lines 2 and 3 after upgrading of the waxing and winding machinery for our 100% spun polyester sewing threads for both industrial and domestic use, we plan to acquire cone winding machines for Production line 1. During the Track Record Period, the designed production capacity of Production line 1 was approximately 46.5 million km, 36.0 million km and 14.2 million km, respectively, for the two years ended 31 December 2016 and the five months ended 31 May 2017. The utilisation rate of Production line 1 was 89.7%, 93.8% and 86.7% for the same periods, respectively. As mentioned above, with the newly acquired waxing and winding machines, our Production lines 2 and 3 would be able to operate at a higher speed, achieving a greater designed production capacity for both. With the upgrading of the waxing and winding machines for Production lines 2 and 3, Production line 1 would become inadequate to support the greater designed production capacity. As such, our Group expects that the acquisition of cone winding machines for Production line 1 will support the upgraded Production lines 2 and 3. Moreover, with the newly acquired machinery, together with our existing machines, we can achieve a one-day shift production plan for Production line 1, resulting in a saving of approximately HK\$281,000 of cost of sales per year. Such upgrading is expected to be in the amount of HK\$3.8 million. Assuming that the Offer Price is determined at the mid-point of the indicative Offer Price range, our Group intends to finance such upgrading with 10.0% of the Net Proceeds.

The table below sets out the designed production capacity of Production line 1 (cone winding for 100% spun polyester sewing threads for both industrial and domestic use) before and after the proposed machinery upgrade and acquisition:

	<b>Before the proposed machinery upgrade and acquisition</b>			<b>After the proposed machinery upgrade and acquisition Annual designed production capacity<sup>(2)</sup></b>
	<b>Year ended 31 December 2015</b>	<b>Year ended 31 December 2016</b>	<b>Five months ended 31 May 2017</b>	
	<b>Designed production capacity<sup>(1)</sup> ( '000 km)</b>	<b>Designed production capacity<sup>(1)</sup> ( '000 km)</b>	<b>Designed production capacity<sup>(1)</sup> ( '000 km)</b>	<b>Designed production capacity<sup>(2)</sup> ( '000 km)</b>
Cone winding machine group A	46,467	36,012	14,174	18,006
Cone winding machine group B	N/A	N/A	N/A	18,765
<b>Total</b>	<b>46,467</b>	<b>36,012</b>	<b>14,174</b>	<b>36,771</b>



## FUTURE PLANS AND USE OF PROCEEDS

*Notes:*

1. The designed production capacity before the proposed machinery upgrade and acquisition is based on our management's estimate of the length of products that our workforce at our Guangzhou Production Facilities are capable of producing on an annual basis. The designed production capacity of Production line 1 before the proposed machinery upgrade and acquisition is derived from the assumption that our Guangzhou Production Facilities are in production for 18 hours with two shifts per day and 244 days per year and 94 days for the five months ended 31 May 2017, with the planned number of production workers, planned production mix and the planned production capacity per worker per hour.
2. The designed production capacity after the proposed machinery upgrade and acquisition is based on our management's estimate of the length of products that our workforce at our Guangzhou Production Facilities will be capable of producing on an annual basis after acquiring the relevant machinery to form cone winding machine group B and upgrade Production line 1. The designed production capacity of Production line 1 after the proposed machinery upgrade and acquisition is derived from the assumption that our Guangzhou Production Facilities will be in production for nine hours with one shift per day and 244 days per year, with the planned number of production workers, planned production mix and the planned production capacity per worker per hour.

Our Directors believe that our Group will have sufficient demand for our 100% spun polyester sewing threads should we increase our relevant production capacity by means of upgrading our machinery. During the Track Record Period, while the revenue generated from the sales of our 100% spun polyester sewing threads showed a decrease for the year ended 31 December 2016, the revenue increased by 4.7% from approximately HK\$22.5 million for the five months ended 31 May 2016 to approximately HK\$23.5 million for the five months ended 31 May 2017. In addition, according to the CIC Report, the production value of sewing threads in the PRC is expected to grow at a CAGR of 1.7% between 2016 and 2021. Further, according to the CIC Report, the sewing threads market in the PRC is moving from favouring low price products to favouring quality and differentiated products. Such a shift in the sewing threads trend brings a favourable growth to the mid- to high-end sewing threads market in the PRC, which is expected to grow at a CAGR of 3.9% between 2016 and 2021. Accordingly, our Directors are of the view that our Group will be able to benefit from the above-mentioned trend and given the wide colour variety and the custom-made colour blending service we can offer as well as our stringent quality control on our products, our existing customers will be interested in continuing to purchase 100% spun polyester sewing threads from us. During the Track Record Period, new customers had been induced to purchase our products due to the aforesaid factors. Our Directors expect that both our existing customers and these new customers will continue to be interested in purchasing 100% spun polyester sewing threads from our Group. When we have the relevant production capacity increased, we will enhance our marketing efforts so as to reach out more potential customers. As part of our business plan, we plan to set up a sales office in Zhejiang Province. Upon the setting up of this sales office, we will launch promotion of our 100% spun polyester sewing threads in Zhejiang Province.

The wages of our workers involved in our production are basically calculated on a length-rate basis. In other words, the higher productivity a worker has in terms of length of threads, the higher wages he can earn. Should we upgrade our production lines by acquiring new machines with a higher production capacity, our workers will be able to earn more within the same working hours as compared with what they earn under our current situation. Hence, the increased production capacity of our production lines act as a good incentive to hire new workers or retain our existing workers. Our Group will be able to benefit from a more efficient operation arising from the upgrading of our machinery.

## FUTURE PLANS AND USE OF PROCEEDS

In the course of our business, we mainly sell polyester sewing threads. We intend to expand our product range by setting up production lines for nylon threads. Most of our customers are garment manufacturers. The manufacturing of garments often involves topstitching and overlock stitching. Our Directors believe that when our customers purchase our polyester sewing threads for the topstitching of the garments they manufacture, they may also require overlock stitching threads (鋁骨線) from us. According to the CIC Report, nylon threads are suitable for overlock stitching in garments. Should we introduce nylon threads in our product range, our Directors believe that our existing customers would have intention to purchase nylon threads from us for a number of reasons: (i) our colour catalogue containing approximately 1,200 colour samples, together with our custom-made colour blending service, can assure our customers that they are able to obtain the precise colour for the sewing threads they require. By means of our technical proficiency and experience, we can provide our customers with our polyester sewing threads as the topstitching threads (明線) and the nylon sewing threads as the overlock stitching threads (鋁骨線) of identical colours, respectively on the same garments. We can also blend the exact colour they require for the nylon threads as the overlock stitching threads to match the topstitching threads; (ii) our Group will maintain equally stringent quality control standards for our nylon threads as we apply to our polyester sewing threads to ensure that the nylon threads we offer are of good and reliable quality; and (iii) our customers can enjoy great convenience if they are able to procure both polyester sewing threads and nylon threads from us, which would save our customers' time spent seeking reliable nylon thread suppliers, communicating with different thread suppliers about specifications and placing orders with different thread suppliers. We plan to set up production lines for nylon threads which generate an annual designed production capacity of 1.2 million km in aggregate and expect to launch these production lines in 2018.

To secure the demand for our new product, we have obtained a memorandum of understanding, which is not legally binding, from 12 of our existing customers who were not our top five customers during the Track Record Period, expressing their intention to purchase nylon threads from us should we introduce a new production line for the production of nylon threads. These 12 customers expressed the view that they would be able to achieve a desirable effect for the garments they manufacture if sewing threads for topstitching as well as overlock stitching are from the same supplier. With consideration to the average aggregate purchase of our 100% spun polyester sewing threads made by the aforesaid 12 customers for the two years ended 31 December 2016, we expect that a demand for approximately 1.2 million km of nylon threads will come from the aforesaid 12 customers, which would need nylon threads as overlock stitching threads for the garments they manufacture. The relevant designed production capacity of our production lines for nylon threads for the year 2018 will be filled up by the demand from these 12 customers. Other than the 12 aforesaid customers who have signed a memorandum of understanding, our Directors believe that we have other existing customers who are also interested in our nylon threads. Hence, should we launch the production lines for nylon threads, our sales team will identify these customers and then strengthen their marketing efforts to promote our new products, including paying visits to our potential customers and explaining to them the benefits of having topstitching threads and overlock stitching threads from the same supplier. Further, according to the CIC Report, the consumption value of nylon sewing threads is expected to increase at a CAGR of 11.1% between 2016 and 2021. Our Directors believe that if we set up production lines for manufacturing nylon threads and sell our products at prevailing market prices, such an expansion of our product range would help enhance our Group's profitability. Our Directors believe that operating one shift of nine hours per day is an efficient way to introduce nylon threads in our product range, taking into account the rising labour costs and the difficulty in hiring night shift workers in Guangdong province as previously mentioned. Our Group expects that the acquisition of the machines for the production of nylon threads

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

will be in the amount of HK\$3.3 million. Assuming that the Offer Price is determined at the mid-point of the indicative Offer Price range, our Group intends to finance such upgrading with 9.0% of the Net Proceeds.

We plan to expand our sales network by setting up a sales office in Zhejiang province. According to the CIC Report, Zhejiang province ranked third among all the provinces in the PRC in terms of the total garment production volume in 2015 and fourth among all the provinces in the PRC in terms of the total consumption volume of sewing threads in 2016, respectively. Given that we are able to raise the production capacity of our production lines for 100% spun polyester sewing threads and introduce production lines for nylon threads in our Guangzhou Production Facilities, we plan to set up a sales office in Zhejiang province to explore new business opportunities in the province. Our Group expects that the setting up of this sales office will be in the amount of HK\$1.0 million. Assuming that the Offer Price is determined at the mid-point of the indicative Offer Price range, our Group intends to finance the setting up of a new sales office with 3.0% of the Net Proceeds.

The above allocation of the net proceeds of the Share Offer will be adjusted on a pro rata basis in the event that the Offer Price is determined at a higher or lower level compared to the mid-point of the Offer Price range.

Assuming that the Offer Price is determined at HK\$0.375 (being the high-end of the Offer Price range), our Company will receive additional net proceeds of approximately HK\$12.4 million.

Assuming that the Offer Price is determined at HK\$0.25 (being the low-end of the Offer Price range), the net proceeds to be received by our Company will be reduced by approximately HK\$12.6 million.

The net proceeds will be used in the same proportion as disclosed above irrespective of whether the Offer Price is determined at the highest or lowest point of the indicative Offer Price range.

To the extent that the net proceeds of the Share Offer are not immediately required for the above purposes, our Directors currently intend that such proceeds be placed on short-term deposits with licensed banks and/or financial institutions.

### **REASONS FOR LISTING**

Our Directors envisage that there are considerable business opportunities in the sewing threads industry, which justify the expansion plan of our Group. For details of such business opportunities, please refer to the section headed “Industry Overview” of this prospectus. Our expansion plan is in line with the industry trend. Our objective of capturing more business opportunities in the sewing threads industry necessitate our fund raising through the Share Offer. For details of our planned business expansion, please refer to the section headed “Business — Our business strategies” of this prospectus.

Our Directors are of the view that our ability to further grow our business hinges on (1) our ability to enhance our production capacity; and (2) our ability to broaden our product range. As such, our Directors consider that it is of great importance to replace part of our machines for the production of 100% spun polyester sewing threads with more efficient ones as well as to set up new production lines for the manufacturing of nylon threads.

## FUTURE PLANS AND USE OF PROCEEDS

Furthermore, our Directors believe that our Group must continue to increase our available financial resources so as to meet our working capital requirements. During the Track Record Period, our operation was funded through a combination of cash generated from our operations and bank borrowings.

Given that our Group recorded the cash and cash equivalents of approximately HK\$1.5 million as at the Latest Practicable Date and had unutilised banking facilities of HK\$1.0 million as at the Latest Practicable Date, our Directors consider that our Group's current financial resources will not be able to support our future plan.

### IMPLEMENTATION PLAN

In light of our business objective, we will seek to attain the milestones contained in this paragraph from the Latest Practicable Date to 31 December 2018. Prospective investors should note that the milestones and their scheduled times for attainment are formulated on the bases and assumptions referred to in the paragraph headed "Bases and Assumptions" in this section. These bases and assumptions are inherently subject to many uncertainties, variables and unpredictable factors, in particular the risk factors set out in the section headed "Risk Factors" of this prospectus. Our Group's actual course of business may vary from the business objectives set out in this prospectus. There can be no assurance that the plans of our Group will materialise in accordance with the expected time frame or that the objectives of our Group will be accomplished at all. Based on the current state of the sewing thread manufacturing industry, our Directors intend to carry out the following implementation plan:

#### From the Latest Practicable Date to 31 December 2017

<b>Business strategies</b>	<b>Use of proceeds</b>	<b>Implementation plan</b>
Upgrading our machinery for the production of 100% spun polyester sewing threads for industrial use	HK\$9.0 million	— Purchasing four waxing and winding machines for the production of 100% spun polyester sewing threads for industrial use
Acquiring new machinery for the production of nylon threads	HK\$3.3 million	— Purchasing five machines for the production of nylon threads
Setting up a sales office in Zhejiang province	HK\$0.5 million	— Leasing a suitable premises for our sales office  — Renovating the sales office

## FUTURE PLANS AND USE OF PROCEEDS

### For the six months ending 30 June 2018

<b>Business strategies</b>	<b>Use of proceeds</b>	<b>Implementation plan</b>
Upgrading our machinery for the production of 100% spun polyester sewing threads for industrial use	HK\$4.5 million	— Purchasing two waxing and winding machines for the production of 100% spun polyester sewing threads for industrial use
Upgrading our machinery for the production of 100% spun polyester sewing threads for domestic use	HK\$7.0 million	— Purchasing two machines for the production of 100% spun polyester sewing threads for domestic use
Setting up a sales office in Zhejiang province	HK\$0.5 million	— Purchasing office equipment — Recruiting a sales team
Acquiring new cone winding machines	HK\$1.2 million	— Ordering two cone winding machines to facilitate our production lines for 100% spun polyester sewing threads and paying the deposit

### For the six months ending 31 December 2018

<b>Business strategies</b>	<b>Use of proceeds</b>	<b>Implementation plan</b>
Upgrading our machinery for the production of 100% spun polyester sewing threads for industrial use	HK\$4.5 million	— Purchasing eight waxing and winding machines for the production of 100% spun polyester sewing threads for industrial use
Acquiring new cone winding machines	HK\$2.6 million	— Paying the balance for the two cone winding machines

## FUTURE PLANS AND USE OF PROCEEDS

### BASES AND ASSUMPTIONS

The business objectives set out by our Directors are based on the following bases and assumptions:

- the net proceeds from the Share Offer on the Offer Price of HK\$0.313 per Share (being the mid-point of the stated range of the Offer Price), after deducting related expenses, are estimated to be approximately HK\$36.3 million;
- our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- there will be no material adverse change in the existing laws and regulations, policies or industry or regulatory treatment relating to our Group, or in the political, economic, fiscal or market conditions in which our Group operates;
- there will be no change in the funding requirement for each of the near term business objectives described in this prospectus from the amount as estimated by our Directors;
- there will be no material changes in the bases or rates of taxation applicable to the activities of our Group;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group;
- the Share Offer will be completed in accordance with and as described in the section headed “Structure and Conditions of the Share Offer” of this prospectus;
- our Group is able to maintain its customers;
- our Group will be able to retain key staff in the management as well as operations;
- our Group will be able to continue its operations in substantially the same manner as our Group had been operating during the Track Record Period and our Group will also be able to carry out its development plans without disruption adversely affecting its operations or business objectives in any way; and
- our Group will not be adversely affected by the risk factors as set out in the section headed “Risk Factors” of this prospectus.

## UNDERWRITING

### THE PUBLIC OFFER UNDERWRITERS

Huabang Securities Limited  
Quasar Securities Co., Limited  
Long Asia Securities Limited  
Yue Xiu Securities Company Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### The Public Offer

##### *Public Offer Underwriting Agreement*

Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to offer the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including the additional Shares to be issued pursuant to the Capitalisation Issue and pursuant to the exercise of the Offer Size Adjustment Option) by the Listing Division and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have severally and not jointly agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

##### *Grounds for termination*

The Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters) is entitled, in its sole and absolute discretion, to terminate the Public Offer Underwriting Agreement by giving notice in writing to our Company (with a copy of such notice to the other parties to the Public Offer Underwriting Agreement) with immediate effect at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date if:

- (a) there has come to the notice of the Sole Bookrunner or any Public Offer Underwriters and the Sole Bookrunner or the Public Offer Underwriters have reasonable cause to believe:
  - (i) that any statement contained in this prospectus, the Application Forms, any supplemental offering materials, press announcement, the formal notice to be issued on Thursday, 30 November 2017 by our Company substantially in the agreed form pursuant to the GEM Listing Rules, the road show materials and any other document published or issued by or on behalf of our Company, the Sole Sponsor or the Sole Bookrunner for the purpose of or in connection with the Public Offer, determined by the Sole Bookrunner in its sole and absolute direction, was when the same was issued, or has become, untrue, incorrect or misleading in any respect; or

## UNDERWRITING

- (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom determined by the Sole Bookrunner in its sole and absolute discretion to be material to the Public Offer; or
  - (iii) any material breach of any of the obligations imposed upon any party to the Public Offer Underwriting Agreement (other than on the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Public Offer Underwriters) as determined by the Sole Bookrunner in its reasonable discretion; or
  - (iv) any material adverse change or development involving a prospective material change (whether or not permanent) in the conditions, business affairs, prospects or the financial or trading position of our Group; or
  - (v) any material breach of any of the warranties under the Public Offer Underwriting Agreement, as determined by the Sole Bookrunner in its reasonable discretion; or
  - (vi) any of the Reporting Accountants, or any of the counsel or adviser of our Company or other experts has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
  - (vii) any of the warranties under the Public Offer Underwriting Agreement is untrue, inaccurate, misleading or breached in any material respect when given or repeated as determined by the Sole Bookrunner in its reasonable discretion.
- (b) there shall develop, occur, exist, continue to exist or come into effect:
- (i) any event, or series of events, beyond the control of the Sole Bookrunner or the Public Offer Underwriters (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, war, threat of war, acts of God, acts of terrorism, riot, public disorder, economic sanctions, outbreak of diseases or epidemics including SARS and avian influenza and such related/mutated forms or interruption or delay in transportation); or
  - (ii) any adverse change or development involving a prospective change or any event or series of events currently in existence or otherwise, likely to result in any change or development (whether or not permanent) in local, national, regional or international, financial, economic, currency, legal, exchange control, political, military, industrial, fiscal, regulatory or market or other conditions, circumstances or matters and/or disaster or any monetary or trading settlement systems (including any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ National Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or any of the stock exchanges in the PRC, or a material fluctuation in the exchange rate of Hong Kong dollars or Renminbi against any foreign currency, or an interruption in securities settlement or clearance service or procedures in Hong Kong, the PRC or anywhere in the world); or



## UNDERWRITING

- (iii) any new publicly available laws, rules, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees or rulings of any court, government, governmental or regulatory authority or any other any public, regulator, taxing, administrative or governmental, agency or authority, any self-regulatory organization or any securities exchange authority, other authority and any court at the national, provincial, municipal or local level of all relevant jurisdictions, including (without limitation) the PRC, Hong Kong, the Cayman Islands and the BVI (as the case may be) (“**Government Authority**”) and all relevant Code of Conduct, the CFA code, the SFC Guidelines for GEM, the Joint Statement regarding the price volatility of GEM stocks issued by the SFC and the Stock Exchange on 20 January 2017 and the GEM Listing Rules (the “**Relevant Laws**”) or policy or directive or change (whether or not forming part of a series of changes) or development in existing Relevant Laws or policy or directive or in the interpretation or application thereof by any court or Government Authority or other competent authority in Hong Kong, the PRC, the United States or any other jurisdictions where any member of the Group is incorporated or operated; or
- (iv) the imposition of economic or other sanctions, in whatever form, directly or indirectly, by, the United States or the European Union (or any member thereof) or any other country or organisation in Hong Kong, the PRC, the United States or any other jurisdiction where any member of our Group is incorporated or operated; or
- (v) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations in Hong Kong, the PRC, the United States, or any other jurisdiction where any member of our Group is incorporated or operated; or
- (vi) any change or development involving a prospective change, or a materialisation of, any of the risks set forth in the section headed “Risk Factors” in this prospectus; or
- (vii) any litigation or claim of material importance of any third party being threatened or instigated against any member of our Group; or
- (viii) a demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (ix) any loss or damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (x) a petition is presented for the winding up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or

## UNDERWRITING

- (xi) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or other competent authority), the PRC or other jurisdictions relevant to any member of our Group; or
- (xii) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting Hong Kong, the PRC, the Cayman Islands, the BVI or any other jurisdiction where our Company is incorporated or operated; or
- (xiii) there is a change in the system under which the value of the Hong Kong dollars is linked to that of the U.S. dollars or the peg of RMB to a basket of currencies including USD; or
- (xiv) any event, act or omission which gives rise to or is likely to give rise to any liability of any of the Controlling Shareholders pursuant to the indemnity contained in the Public Offer Underwriting Agreement; or
- (xv) any concern by the Sole Bookrunner concerning compliance with Relevant Law(s) with respect to any matters relating to the Public Offer, the Offer Shares, the Listing and/or any other related matters,

which in the reasonable opinion of the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters) (1) is or shall have or could be expected to have a material adverse effect on the business, financial, trading or other conditions or prospects of our Group; or (2) has or shall have or could be expected to have a material adverse effect on the success, marketability or pricing or the Public Offer or the level of interest under the Public Offer; or (3) is or will or may make it inadvisable, inexpedient, impracticable or not commercially viable (i) for the Public Offer to proceed or (ii) for any material part of the Public Offer Underwriting Agreement to be performed or implemented as envisaged; or (4) having any compliance related concern in respect of the Public Offer, the Offer Shares, the Listing, and/or any other related matters, with consideration of Relevant Law(s).

### **Undertakings to the Stock Exchange under the GEM Listing Rules**

#### *Undertakings by our Company*

Pursuant to Rule 17.29 of the GEM Listing Rules, we have undertaken to the Stock Exchange that save as pursuant to the Share Offer (including the exercise of the Offer Size Adjustment Option) and the grant and exercise of the options under the Share Option Scheme, we will not issue any further Shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the date on which the Shares commence dealings on the Stock Exchange (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealings), except in certain circumstances prescribed by Rule 17.29 of the GEM Listing Rules.

## UNDERWRITING

### *Undertakings by our Controlling Shareholders*

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and our Company that he/it shall not and shall procure that the relevant registered holder(s) (if any) shall not, except pursuant to the Share Offer or the Capitalisation Issue or the Offer Size Adjustment Option:

- (i) save as provided in Rule 13.18 of the GEM Listing Rules, in the period commencing on the date by reference to which disclosure of his/its shareholding is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of the Relevant Securities; and
- (ii) save as provided in Rule 13.18 of the GEM Listing Rules, in the period of six months commencing from the expiry of the period referred to in paragraph (i) above (the “**Second Six-Month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, our Controlling Shareholders would cease to be controlling shareholders (as defined in the GEM Listing Rules) of our Company on a collective basis.

In addition, in accordance with Rule 13.19 of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and our Company that he/it will comply with the following requirements:

- (i) in the event that he/it pledges or charges any direct or indirect interest in the Relevant Securities in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)), as security for a bona fide commercial loan or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the First Six-Month Period and the Second Six-Month Period, he/it must inform our Company immediately thereafter, disclosing the details specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and
- (ii) having pledged or charged any interest in the Shares under (i) above, he/it must inform our Company immediately in the event that he/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of Shares affected.

Pursuant to Rule 13.20 of the GEM Listing Rules, in the event that our Company has been informed of any matter under Rule 13.19 of the GEM Listing Rules as described above, we shall forthwith publish an announcement giving details of the same in accordance with the requirements of Rule 17.43 of the GEM Listing Rules.

## UNDERWRITING

### **Undertakings pursuant to the Public Offer Underwriting Agreement**

#### *Undertakings by our Company*

Our Company has undertaken to each of the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Public Offer Underwriters that our Company shall not, and each of our Controlling Shareholders have undertaken to the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Public Offer Underwriters to procure our Company shall not, without the prior written consent of the Sole Sponsor and the Sole Bookrunner (which consent shall not be unreasonably withheld or delayed) and unless in compliance with the requirements of the GEM Listing Rules, and except pursuant to the Share Offer, the Capitalisation Issue and the exercise of the options to be granted under the Share Option Scheme:

- (a) during the First Six-Month Period:
  - (i) offer, allot or issue, or agree to offer, allot, issue (conditionally or unconditionally) any Shares or securities convertible into or exchangeable for equity securities of our Company (whether or not of a class already listed); or
  - (ii) grant or agree to grant (conditionally or unconditionally) any options, warrants or other rights carrying the rights to subscribe for or otherwise acquire or convertible into or exchangeable for Shares or other securities of our Company (whether or not of a class already listed); or
  - (iii) enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by our Company or any of its affiliates, either directly or indirectly, conditionally or unconditionally, any Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or any securities convertible into or exchangeable for such Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or any Shares of any Subsidiaries (or any interest in any shares of any Subsidiaries or any voting right attaching to any shares of any Subsidiaries) or any securities convertible into or exchangeable for such shares in any Subsidiaries (or any interest in any shares of any Subsidiaries or any voting or other right attaching to any shares of any Subsidiaries); or
  - (iv) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or securities convertible into or exchangeable for such Shares; or
  - (v) repurchase any Shares or securities of our Company; or
  - (vi) offer to or agree to do any of the foregoing or announce any intention to do so;

## UNDERWRITING

- (b) during the Second Six-Month Period, do any of the acts set out in paragraph (a) above such that any of our Controlling Shareholders (together with any of his/its associates) either individually or collectively would cease to be controlling shareholders of our Company (within the meaning defined in the GEM Listing Rules); and
- (c) in the event that our Company does any of the acts set out in paragraphs (a) and (b) above after the expiry of the First Six-Month Period or the Second Six-Month Period, as the case may be, take all steps to ensure that any such act, if done, shall not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

### *Undertaking by our Controlling Shareholders*

Each of our Controlling Shareholders has undertaken to and covenanted with the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Public Offer Underwriters and our Company that, without the prior written consent of each of our Company, the Sole Sponsor, Sole Bookrunner and the Joint Lead Managers, he/it shall not directly or indirectly and shall procure that none of his/its associates or the companies controlled by him/it or any nominee or trustee holding in trust for him/it shall during the First Six-Month Period:

- (a) sell, transfer or dispose of, offer to sell, contract to sell, transfer or dispose of, nor enter into any agreements to sell, transfer or dispose of or otherwise create any options, warrants, rights, interests or encumbrances (including the creation or entry into of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charge, pledges or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) on any of the Shares (or any interest in any Shares or any voting or other right attaching to any Shares) or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such shares therein owned by him/it or any of his/its associates or in which he/it or any of his/its associates is, directly or indirectly, interested immediately after the completion of the Capitalisation Issue, the Share Offer and the allotment and issuance of any other Shares or securities of or interest in the Company arising or deriving therefrom as a result of capitalisation issue or scrip dividend or otherwise or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of the acquisition or ownership of any such Shares or such securities; or
- (b) sell, transfer or dispose of, offer to sell, contract to sell, transfer or dispose of, nor enter into any agreements to sell, transfer or dispose of or otherwise create any options, warrants, rights, interests or encumbrances (including the creation or entry into of any agreement to create any pledge or charge or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition whether by actual disposition or effective economic disposition due to cash settlement or otherwise) on any shares or interest in any company controlled by him/it or any of his/its associates which is the beneficial owner (directly or indirectly) of any of such securities or any interests therein as referred to in paragraph (a) above (or any other shares or securities of or interest in such company arising or deriving therefrom as a result of Capitalisation Issue or scrip dividend or otherwise); or

## UNDERWRITING

- (c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a) and (b) above; or
- (d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) above.

Each of our Controlling Shareholders has undertaken to and covenanted with the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Public Offer Underwriters and our Company that, save with the prior written consent of the Company, the Sole Sponsor, the Sole Bookrunner and the Joint Lead Managers, during the Second Six-Month Period, he/it shall not and shall procure that none of his/its associates or the companies controlled by him/it shall or any nominee or trustee holding in trust for him/it shall:

- (a) sell, transfer, dispose of, offer to sell, transfer or disposal of nor enter into any agreement to sell, transfer or dispose of or create any options, warrants, rights, interests or encumbrances (including the creation or entry into of any agreement to create any pledge or charge or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise)) on any shares in any company controlled by him/it or any of their associates which is the beneficial owner (directly or indirectly) of such Shares or any interests therein as aforesaid if, immediately following such disposal or creation of rights, our Controlling Shareholders (together with his/its associates) would, directly or indirectly, cease to be a controlling shareholder (within the meaning of the GEM Listing Rules) of our Company or cease to hold, directly or indirectly, a controlling interest of over 30%, or such lower amount as may from time to time be specified in the Takeovers Codes as being the level for triggering a mandatory general offer, in our Company;
- (b) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraph (a) above announce any intention to enter into or effect any of the transactions referred to in paragraph (a) above.

In the event of a disposal by him/it of any of the Shares or securities or any interest therein during the Second Six-Month Period he/it will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for the Shares or other securities of the Company.

### **The Placing**

#### *Placing Underwriting Agreement*

In connection with the Placing, it is expected that our Company will enter into the Placing Underwriting Agreement with, *inter alia*, the Placing Underwriters, on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement and on the additional terms described below. Pursuant to the Placing Underwriting Agreement, we are offering the Placing Shares for subscription by way of Placing, on and subject to the terms and conditions in the Placing Underwriting Agreement and this prospectus, at the Offer Price. Under the Placing Underwriting Agreement, subject to, among other conditions, (i) the Listing Division of the Stock Exchange granting the Listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (ii) the

## UNDERWRITING

Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated; and (iii) certain other conditions set out in the Placing Underwriting Agreement, the Placing Underwriters have severally agreed to subscribe for, or procure subscribers for their respective applicable proportions of the Offer Shares on the terms and conditions of the Placing. The Placing Underwriting Agreement is expected to provide that it may be terminated on grounds similar to those provided in the Public Offer Underwriting Agreement. Potential investors are reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed.

It is expected that our Company will grant the Offer Size Adjustment Option to the Placing Underwriters, exercisable by the Sole Bookrunner (for itself on behalf of the Placing Underwriters) during the period from the date of the Placing Underwriting Agreement to the Business Day immediately before the date of announcement of the results of allocation and the basis of allocation of the Public Offer Shares, to require our Company to issue up to an aggregate of 30,000,000 additional new Shares, representing in aggregate 15% of the total number of Offer Shares initially made available under the Share Offer on the same terms as those applicable to the Share Offer to cover over-allocations in the Placing (if any).

It is expected that, pursuant to the Placing Underwriting Agreement, our Company, our executive Directors and our Controlling Shareholders will give undertakings similar to those given pursuant to the Public Offer Underwriting Agreement, as described in the sub-section headed “Underwriting Arrangements and Expenses — The Public Offer — Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

It is expected that each of our Controlling Shareholders will undertake to the Placing Underwriters not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of the Shares held by them in our Company for a period similar to that given by them pursuant to the Public Offer Underwriting Agreement as described in the sub-section headed “Underwriting Arrangements and Expenses — The Public Offer — Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

### **Total commission, fee and expenses**

In connection with the Share Offer, the Public Offer Underwriters will, and the Placing Underwriters are expected to receive an underwriting commission of the aggregate of 3.5% of the aggregate Offer Price of all the Offer Shares, out of which they will pay any sub-underwriting commissions. If any of Offer Size Adjustment Option is exercised, the underwriting commission will be calculated in the same manner with the Offer Shares initially available for subscription. In connection with the Listing, the Sole Sponsor will receive a sponsorship fee.

The aggregate commissions and estimated expenses, together with Listing fees, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Share Offer are estimated to be approximately HK\$26.3 million (based on the mid-point of our indicative Offer Price range and assuming the Offer Size Adjustment Option is not exercised) and are payable by our Company.

## **UNDERWRITING**

### **INDEPENDENCE OF THE SOLE SPONSOR**

The Sole Sponsor satisfies the independence criteria applicable to sponsors set forth in Rule 6A.07 of the GEM Listing Rules. No director or employee of the Sole Sponsor has a directorship in our Company or any of its subsidiaries.

### **SOLE SPONSOR'S INTERESTS IN OUR COMPANY**

Save for (i) the sponsor's fee paid and to be payable to the Sole Sponsor in respect of the Listing; and (ii) the fees to be paid to Huabang Corporate Finance Limited as our Company's compliance adviser pursuant to the requirements under Rules 6A.19 of the GEM Listing Rules, neither the Sole Sponsor nor any of its directors, employees and associates is interested legally or beneficially in the shares of any member of our Group nor any interest in the Share Offer or has any other business relationship with our Group.

No director or employee of the Sole Sponsor who is involved in providing advice to our Company has or may have, as a result of the Share Offer, any interest in any class of securities of our Company or any of its subsidiaries (including options or rights to subscribe for such securities that may be subscribed for or purchased by any such director or employee pursuant to the Share Offer).

### **UNDERWRITERS' INTEREST IN OUR COMPANY**

Save for their respective interest and obligations under the Underwriting Agreements as disclosed above and the appointment of the Sole Sponsor as our compliance adviser none of the Underwriters has any shareholding interests in any member of our Group nor has any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of our Group.

### **MINIMUM PUBLIC FLOAT**

Our Directors will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 11.23 of the GEM Listing Rules after completion of the Share Offer.



## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

### THE SHARE OFFER

The Share Offer comprises:

- (a) the Public Offer of 20,000,000 new Shares (subject to reallocation as mentioned below) for subscription by the public in Hong Kong as described in the sub-section headed “The Public Offer” in this section; and
- (b) the Placing of an aggregate of 180,000,000 new Shares (subject to reallocation and the Offer Size Adjustment Option as mentioned below) outside of the United States to professional, institutional and/or other investors.

Investors may apply for Offer Shares under the Public Offer or apply for or indicate an interest for Offer Shares under the Placing, but may not do both. References in this prospectus to applications, Application Forms, application monies or the procedures for application relate solely to the Public Offer.

The Offer Shares will represent 25% of the total issued share capital of our Company immediately after completion of the Share Offer and the Capitalisation Issue (assuming that the Offer Size Adjustment Option is not exercised).

### THE PUBLIC OFFER

#### Number of Shares initially offered

We are initially offering 20,000,000 new Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Shares initially available under the Share Offer. Subject to the reallocation of Shares between the Public Offer and the Placing, the Public Offer Shares will represent 2.5% of the total issued share capital of our Company immediately following the completion of the Share Offer and the Capitalisation Issue (assuming that the Offer Size Adjustment Option is not exercised). The Public Offer is open to members of the public in Hong Kong as well as to professional, institutional and/or other investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealings in shares and other securities and corporate entities which regularly invest in shares and other securities. The Public Offer Shares are fully underwritten by the Public Offer Underwriters subject to the Offer Price being agreed on or before the Price Determination Date.

Completion of the Public Offer is subject to the conditions as set out in the paragraph headed “Conditions of the Public Offer” in this section.

#### Allocation

Allocation of Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

### Reallocation

The allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation on the following basis:

- (a) if the number of the Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Public Offer, then 40,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be 60,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option);
- (b) if the number of the Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Public Offer, then 60,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of the number of Offer Shares available under the Public Offer will be 80,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option); and
- (c) if the number of the Offer Shares validly applied for under the Public Offer represents 100 times or more the number of the Offer Shares initially available for subscription under the Public Offer, then 80,000,000 Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be 100,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option).

In all cases, the number of Offer Shares allocated to the Placing will be correspondingly reduced.

If the Public Offer Shares are not fully subscribed, the Sole Bookrunner (for itself and on behalf of the Underwriters) will have the discretion (but shall not be under any obligation) to reallocate all or any of the unsubscribed Public Offer Shares to the Placing in such amount as the Sole Bookrunner (for itself and on behalf of the Underwriters) deems appropriate. In addition, in certain prescribed circumstances, the Sole Bookrunner may, at its sole and absolute discretion, reallocate Placing Shares as it deems appropriate from the Placing to the Public Offer to satisfy in whole or in part the excess valid application in the Public Offer. If the Public Offer Shares are not fully subscribed for, the Sole Bookrunner may, at its sole and absolute discretion, reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportion as the Sole Bookrunner deems appropriate.

### Applications

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the Placing.

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

Multiple or suspected multiple applications and any application for more than 100% of the Public Offer Shares initially comprised in the Public Offer are liable to be rejected.

Applicants under the Public Offer are required to pay, on application, the maximum Offer Price of HK\$0.375 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the sub-section headed “The Placing — Price Determination of the Share Offer” in this section, is less than the maximum Offer Price of HK\$0.375 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for the Public Offer Shares” in this prospectus.

### **THE PLACING**

#### **Number of Offer Shares offered**

The Placing will consist of an initial offering of 180,000,000 Offer Shares (subject to reallocation and the Offer Size Adjustment Option), representing 90% of the total number of Offer Shares initially available under the Share Offer and 22.5% of the total issued share capital immediately after completion of the Share Offer and the Capitalisation Issue (assuming that the Offer Size Adjustment Option is not exercised). The Placing will be offered by us to professional, institutional and/or other investors in Hong Kong. The Placing Shares are expected to be fully underwritten by the Placing Underwriters subject to the Offer Price being agreed on or before the Price Determination Date.

#### **Allocation**

The Placing will include selective marketing of the Placing Shares to professional, institutional and/or other investors anticipated to have a sizeable demand for the Placing Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealings in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of the Placing Shares pursuant to the Placing will be effected in accordance with the “book-building” process described in the paragraph headed “Price Determination of the Share Offer” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and the Shareholders as a whole.

The Sole Bookrunner (for itself and on behalf of the Underwriters) may require any investor who has been offered Placing Shares under the Placing, and who has made an application under the Public Offer to provide sufficient information to the Sole Bookrunner so as to allow it to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application of the Public Offer Shares under the Public Offer.

## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

### Reallocation

The total number of Offer Shares to be issued pursuant to the Placing may change as a result of the clawback arrangement as described in “The Public Offer — Reallocation” in this section and/or the exercise of the Offer Size Adjustment Option in whole or in part. In addition, the Sole Bookrunner may reallocate Placing Shares from the Placing to the Public Offer to satisfy the valid applications under the Public Offer that exceeds the number of Public Offer Shares initially offered.

The Offer Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Bookrunner.

### PRICE DETERMINATION OF THE SHARE OFFER

The Placing Underwriters will be soliciting from prospective investors’ indications of interest in acquiring Offer Shares in the Placing. Prospective investors will be required to specify the number of the Placing Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Public Offer.

Pricing for the Offer Shares for the purpose of the various offerings under the Share Offer will be fixed on the Price Determination Date, which is expected to be on or before Monday, 11 December 2017 by agreement between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company, and the number of Offer Shares to be allocated or sold under various offerings will be determined shortly thereafter. If for any reason, the Offer Price is not agreed by Monday, 11 December 2017 between the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company, the Share Offer will not proceed and will lapse.

The Offer Price will not be more than HK\$0.375 per Offer Share and is expected to be not less than HK\$0.25 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Sole Bookrunner (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and/or other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Share Offer and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In this case, we shall cause to be published and issued, as soon as practicable following the decision to make such change, and in any event not later than the morning of the last day for lodging applications under the Public Offer: (a) a notice of the change on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at [www.shenyouholdings.com](http://www.shenyouholdings.com); and (b) a supplemental prospectus updating investors of the change in the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range, extend the period under which the Public Offer was opened for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions, and give potential investors who had applied for the Public Offer Shares the right to withdraw their applications under the Public Offer. Upon issue of such a notice and a supplemental prospectus, the number of Offer Shares offered in the Share Offer and/

## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company, will be fixed within such revised offer price range. Such notice and supplemental prospectus will include confirmation or revision, as appropriate, of the working capital statement and the Share Offer statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. Before submitting applications for the Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer. In the event there is a reduction in the Offer Shares and/or indicative Offer Price range, if the applicants have already submitted an application for the Public Offer Shares before the last day for lodging applications under the Public Offer, they will be allowed to subsequently withdraw their applications. However, if the Offer Price range is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked. In the absence of any such notice so published, the Offer Price, if agreed upon by our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The net proceeds of the Share Offer accruing to our Company (after deduction of underwriting fees and estimated expenses payable by our Company in relation to the Share Offer) are estimated to be approximately HK\$36.3 million, assuming an Offer Price per Offer Share of HK\$0.313 (being the mid-point of the stated indicative Offer Price range of HK\$0.25 to HK\$0.375 per Offer Share).

The final Offer Price, the level of indications of interest in the Placing, the results of applications and the basis of allotment of the Public Offer Shares under the Public Offer, are expected to be announced on Thursday, 14 December 2017 on the website of our Company at [www.shenyouholdings.com](http://www.shenyouholdings.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

If the Sole Bookrunner (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on or before Monday, 11 December 2017, the Share Offer will not become unconditional and will lapse immediately.

### OFFER SIZE ADJUSTMENT OPTION

In connection with the Share Offer, it is expected that our Company will grant to the Placing Underwriters, exercisable by the Sole Bookrunner (for itself and on behalf of the Placing Underwriters), the Offer Size Adjustment Option to cover over-allocations under the Placing (if any). Pursuant to the Offer Size Adjustment Option, our Company may be required to allot and issue, at the final Offer Price, up to an aggregate of 30,000,000 additional new Shares, representing 15% of the Offer Shares initially made available under the Share Offer on the same terms as those applicable to the Share Offer. The Offer Size Adjustment Option can only be exercised by the Sole Bookrunner (for itself and on behalf of the Placing Underwriters) during the period from the date of the Placing Underwriting Agreement to the Business Day immediately before the date of the announcement of the results of allocations and the basis of allocation of the Public Offer Shares; otherwise it will lapse. Our Shares to be issued pursuant to the exercise of the Offer Size Adjustment Option will not be used for price stabilisation purpose in the secondary market after Listing of our Shares on the Stock Exchange and are not subject to the Securities and Futures (Price Stabilizing) Rules of the SFO (Chapter 571W of the Laws of Hong Kong).

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

If the Offer Size Adjustment Option is exercised in full, the additional Offer Shares will represent approximately 3.6% of the enlarged issued share capital of our Company in issue following completion of the Capitalisation Issue, the Share Offer and the exercise of the Offer Size Adjustment Option but without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme. The additional net proceeds that we would receive if the Offer Size Adjustment Option is exercised in full (assuming the Offer Price of HK\$0.313 per Share (being the mid-point of the indicative Offer Price range)) are estimated to be approximately HK\$9.0 million, which would be applied to the respective uses as disclosed in the section headed “Future Plans and Use of Proceeds” on a pro-rata basis.

Whether the Offer Size Adjustment Option is exercised will be disclosed in the allotment results announcement.

### **UNDERWRITING AGREEMENTS**

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement and is conditional upon the Placing Underwriting Agreement being signed and becoming unconditional.

Our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Placing Underwriters expect to enter into the Placing Underwriting Agreement relating to the Placing on or around the Price Determination Date. These underwriting arrangements, and the respective Underwriting Agreements, are summarised in the section headed “Underwriting” in this prospectus.

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

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in the prospectus. Subject to the approval of the listing of, and permission to deal in, the Shares on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

Investors should seek the advice of their stockbrokers or other professional adviser for details of these settlement arrangements and how such arrangements will affect their rights and interest.

## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

### CONDITIONS OF THE PUBLIC OFFER

Acceptance of all applications for the Offer Shares pursuant to the Public Offer will be conditional on:

- (a) the Listing Division of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer and Capitalisation Issue (including any Shares to be issued upon the exercise of the Offer Size Adjustment Option and any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme);
- (b) the Offer Price having been fixed on or before the Price Determination Date;
- (c) the execution and delivery of the Placing Underwriting Agreement on or about the Price Determination Date; and
- (d) the obligations of the Placing Underwriters under the Placing Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with its terms, on or before the dates and times specified in the Placing Underwriting Agreement.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Bookrunner (for itself and on behalf of the Underwriters), or the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled (or, where applicable, waived by the Sole Bookrunner (for itself and on behalf of the Underwriters)) or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will be published on our Company's website at [www.shenyouholdings.com](http://www.shenyouholdings.com) and the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for the Public Offer Shares" in this prospectus. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving bank or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Shares are expected to be issued on Thursday, 14 December 2017 but will only become valid certificates of title at 8:00 a.m. on Friday, 15 December 2017 provided that (i) the Share Offer has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Underwriting Arrangements and Expenses — The Public Offer — Grounds for termination" in this prospectus has not been exercised.

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

### **DEALINGS**

Assuming that the Share Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 15 December 2017, it is expected that dealings in the Shares on GEM will commence at 9:00 a.m. on Friday, 15 December 2017.

The Shares will be traded in board lots of 10,000 Shares each. The stock code of the Shares is 8377.



## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

### 1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form; or
- apply online via the **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Bookrunner, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company and the Sole Bookrunner may accept or reject it at their discretion and on any conditions they think fit, including provision of evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply for means of **HK eIPO White Form** service for the Public Offer Shares.

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a connected person (as defined in the GEM Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer;
- an associate or close associate (both as defined in the GEM Listing Rules) of any of the above; or
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

### 3. APPLYING FOR PUBLIC OFFER SHARES

#### Which application channel to use

For Public Offer Shares to be issued in your own name, (i) use a **WHITE** Application Form; or (ii) apply online through the designated website of the **HK eIPO White Form** Service Provider at [www.hkeipo.hk](http://www.hkeipo.hk) under the **HK eIPO White Form** service.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to collect the Prospectus and Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 30 November 2017 until 12:00 noon on Friday, 8 December 2017 from:

- (i) the following office of the Sole Sponsor:

Room 2006, 20/F, Enterprise Square Two, 3 Sheung Yuet Road, Kowloon Bay, Hong Kong;

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(ii) any of the following offices of the Sole Bookrunner and Joint Lead Managers:

Huabang Securities Limited	Room 1708–13, 17/F Nan Fung Tower 88 Connaught Road Central and 173 Des Voeux Road Central Hong Kong
Quasar Securities Co., Limited	Unit A, 12/F Harbour Commercial Building 122–124 Connaught Road Central Hong Kong
Long Asia Securities Limited	Unit A, 23/F, The Wellington 198 Wellington Street Sheung Wan, Hong Kong
Yue Xiu Securities Company Limited	13/F, Yuexiu Building 160 Lockhart Road Wanchai, Hong Kong

(iii) any of the following branches/sub-branches of the receiving bank, Bank of Communications Co., Ltd. Hong Kong Branch:

District	Branch/Sub-Branch name	Address
Hong Kong Island	Hong Kong Branch	20 Pedder Street Central
Kowloon	Mongkok Sub-Branch	G/F. and 1/F. Shun Wah Building Nos. 735 & 735A Nathan Road Mongkok
New Territories	Tai Po Sub-Branch	Shop No. 1, 2, 26 & 27 G/F., Wing Fai Plaza 29–35 Ting Kok Road Tai Po

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 30 November 2017 until 12:00 noon on Friday, 8 December 2017 from the Depository Counter of HKSCC at 1/F., One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

### Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Bank of Communications (Nominee) Co. Ltd. — Shen You Holdings Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the designated branches/sub-branches of the receiving bank listed above, at the following times:

Thursday, 30 November 2017	—	9:00 a.m. to 5:00 p.m.
Friday, 1 December 2017	—	9:00 a.m. to 5:00 p.m.
Saturday, 2 December 2017	—	9:00 a.m. to 1:00 p.m.
Monday, 4 December 2017	—	9:00 a.m. to 5:00 p.m.
Tuesday, 5 December 2017	—	9:00 a.m. to 5:00 p.m.
Wednesday, 6 December 2017	—	9:00 a.m. to 5:00 p.m.
Thursday, 7 December 2017	—	9:00 a.m. to 5:00 p.m.
Friday, 8 December 2017	—	9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 8 December 2017, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather on the opening of the application lists" in this section.

#### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Bookrunner (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (WUMP) Ordinance, the Companies Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (vi) agree that none of our Company, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) and/or any e-Auto Refund payment instructions to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible and have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- (xvii) understand that our Company and the Sole Bookrunner will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that
- (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and
  - (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional instructions for Yellow Application Form**

You may refer to the **YELLOW** Application Form for details.

## **5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE**

### **General**

Individuals who meet the criteria in “Who can apply” section, may apply through the **HK eIPO White Form** service for the Public Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

### **Time for submitting applications under the HK eIPO White Form**

You may submit your application online to the **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, 30 November 2017 until 11:30 a.m. on Friday, 8 December 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 8 December 2017 or such later time under the “10. Effect of bad weather on the opening of the application lists” in this section.

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

### No multiple applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, given an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

### Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

### Hong Kong Securities Clearing Company Limited

Customer Service Center  
1/F, One & Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Sole Bookrunner and our Hong Kong Branch Share Registrar.

### **Giving electronic application instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Public Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
  - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors and the Sole Bookrunner will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;



## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to being consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Public Offer Shares;

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (WUMP) Ordinance, Companies Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

### Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 10,000 Public Offer Shares. Instructions for more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, 30 November 2017	—	9:00 a.m. to 8:30 p.m.	<i>(note 1)</i>
Friday, 1 December 2017	—	8:00 a.m. to 8:30 p.m.	<i>(note 1)</i>
Monday, 4 December 2017	—	8:00 a.m. to 8:30 p.m.	<i>(note 1)</i>
Tuesday, 5 December 2017	—	8:00 a.m. to 8:30 p.m.	<i>(note 1)</i>
Wednesday, 6 December 2017	—	8:00 a.m. to 8:30 p.m.	<i>(note 1)</i>
Thursday, 7 December 2017	—	8:00 a.m. to 8:30 p.m.	<i>(note 1)</i>
Friday, 8 December 2017	—	8:00 a.m. <i>(note 1)</i> to 12:00 noon	

*Note:*

1. These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 30 November 2017 until 12:00 noon on Friday, 8 December 2017 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 8 December 2017, the last application day or such later time as described in the paragraph headed “10. Effect of bad weather on the opening of the application lists” in this section.

### No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

### Personal data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 8 December 2017.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealings in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Public Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Public Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 10,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure and Conditions of the Share Offer” of this prospectus.

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 8 December 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 8 December 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” of this prospectus, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Thursday, 14 December 2017 on our Company’s website at [www.shenyouholdings.com](http://www.shenyouholdings.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at [www.shenyouholdings.com](http://www.shenyouholdings.com) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 8:00 a.m. on Thursday, 14 December 2017;
- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, 14 December 2017 to 12:00 midnight on Wednesday, 20 December 2017;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 14 December 2017 to Tuesday, 19 December 2017 on a business day; and
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 14 December 2017 to Monday, 18 December 2017 at all the designated receiving bank branches/sub-branches on a business day.

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed “Structure and Conditions of the Share Offer” of this prospectus. You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

### (iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Division does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Division notifies our Company of that longer period within three weeks of the closing date of the application lists.

### (iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Bookrunner believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 100% of the Public Offer Shares initially available for subscription under the Public Offer.

### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.375 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer set out in the section headed "Structure and Conditions of the Share Offer — Conditions of the Public Offer" of this prospectus are not fulfilled or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 14 December 2017.



## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on Thursday, 14 December 2017. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 15 December 2017 provided that the Share Offer has become unconditional and the right of termination described in the section headed “Underwriting” of this prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

### Personal Collection

#### *(i) If you apply using a WHITE Application Form*

If you apply for 1,000,000 Public Offer Shares or more and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) from the Hong Kong Branch Share Registrar from 9:00 a.m. to 1:00 p.m. on Thursday, 14 December 2017 or such other date as notified by our Company as the date of collection/despatch of share certificate(s) and refund cheque(s). If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified on your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) will be sent to the address on your Application Form on Thursday, 14 December 2017, by ordinary post and at your own risk.

#### *(ii) If you apply using a YELLOW Application Form*

If you apply for 1,000,000 Public Offer Shares or more and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) from the Hong Kong Branch Share Registrar from 9:00 a.m. to 1:00 p.m. on Thursday, 14 December 2017, or such other date as notified by our Company as the date of collection/despatch of share certificate(s) and refund cheque(s). If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified on your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) (where applicable) will be sent to the address on your Application Form on Thursday, 14 December 2017, by ordinary post and at your own risk.

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 14 December 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS Investor Participant)*

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

- *If you apply as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the sub-section headed "11. Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 14 December 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

### **(iii) *If you apply through the HK eIPO White Form service***

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar from 9:00 a.m. to 1:00 p.m. on Thursday, 14 December 2017, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificates personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 14 December 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

### *(iv) If you apply via Electronic Application Instructions to HKSCC*

#### *Allocation of Public Offer Shares*

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

#### *Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 14 December 2017, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in the paragraph headed "Publication of results" above on Thursday, 14 December 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 14 December 2017 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 14 December 2017. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

## HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 14 December 2017.

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report, prepared for the purpose of incorporation in this document, received from the Company's Reporting Accountant, Ernst & Young, Certified Public Accountants, Hong Kong.*



22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

The Directors

Shen You Holdings Limited  
Huabang Corporate Finance Limited

Dear Sirs,

We report on the historical financial information of Shen You Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-55, which comprises the combined statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2015 and 2016 and the five months ended 31 May 2017 (the “Relevant Periods”), the combined statements of financial position of the Group as at 31 December 2015 and 2016 and 31 May 2017 and the statements of financial position of the Company as at 31 December 2016 and 31 May 2017 and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-55 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 November 2017 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

#### **DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION**

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

#### **REPORTING ACCOUNTANTS' RESPONSIBILITY**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group as at 31 December 2015 and 2016 and 31 May 2017 and the Company as at 31 December 2016 and 31 May 2017 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

## REVIEW OF INTERIM COMPARATIVE FINANCIAL INFORMATION

We have reviewed the interim comparative financial information of the Group which comprises the combined statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the five months ended 31 May 2016 and other explanatory information (the "Interim Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

**REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES  
ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE AND THE  
COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

**Dividends**

We refer to note 27 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

**No historical financial statements for the Company**

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

30 November 2017



**I. HISTORICAL FINANCIAL INFORMATION****Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

## Combined Statements of Profit or Loss and Other Comprehensive Income

	Notes	Year ended 31 December		Five months ended 31 May	
		2015 HK\$'000	2016 HK\$'000	2016 HK\$'000 (Unaudited)	2017 HK\$'000
REVENUE	5	82,829	72,624	25,446	26,105
Cost of sales		<u>(56,558)</u>	<u>(45,617)</u>	<u>(16,971)</u>	<u>(16,785)</u>
Gross profit		26,271	27,007	8,475	9,320
Other income and gains	5	678	1,515	279	57
Selling and distribution expenses		(7,668)	(6,952)	(2,709)	(2,358)
Administrative expenses		(8,195)	(7,752)	(2,982)	(3,366)
Other expenses		(1,317)	(10,303)	(3,281)	(4,763)
Finance costs	7	<u>(3,238)</u>	<u>(2,892)</u>	<u>(1,311)</u>	<u>(1,001)</u>
PROFIT/(LOSS) BEFORE TAX	6	6,531	623	(1,529)	(2,111)
Income tax expense	10	<u>(1,853)</u>	<u>(1,100)</u>	<u>(203)</u>	<u>(360)</u>
PROFIT/(LOSS) FOR THE YEAR/ PERIOD		<u>4,678</u>	<u>(477)</u>	<u>(1,732)</u>	<u>(2,471)</u>
ATTRIBUTABLE TO OWNERS OF THE PARENT		<u>4,678</u>	<u>(477)</u>	<u>(1,732)</u>	<u>(2,471)</u>
PROFIT/(LOSS) FOR THE YEAR/ PERIOD		<u>4,678</u>	<u>(477)</u>	<u>(1,732)</u>	<u>(2,471)</u>
OTHER COMPREHENSIVE INCOME/(LOSS)					
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:					
Available-for-sale investment:					
Change in fair value		—	(1,157)	(1,189)	87
Income tax effect	24	<u>—</u>	<u>191</u>	<u>196</u>	<u>(14)</u>
Exchange differences on translation of foreign operations		<u>—</u>	<u>(966)</u>	<u>(993)</u>	<u>73</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/ PERIOD, NET OF TAX		<u>(3,915)</u>	<u>(5,549)</u>	<u>(1,756)</u>	<u>1,255</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD		<u>763</u>	<u>(6,026)</u>	<u>(3,488)</u>	<u>(1,216)</u>
ATTRIBUTABLE TO OWNERS OF THE PARENT		<u>763</u>	<u>(6,026)</u>	<u>(3,488)</u>	<u>(1,216)</u>

## Combined Statements of Financial Position

		As at 31 December		As at
		2015	2016	31 May
	Notes	HK\$'000	HK\$'000	2017
				HK\$'000
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	12	14,747	6,171	6,190
Available-for-sale investment	13	—	4,305	4,392
Prepayments, deposits and other receivables	16	2,922	1,226	1,095
Deferred tax assets	24	<u>1,843</u>	<u>1,553</u>	<u>1,326</u>
Total non-current assets		<u>19,512</u>	<u>13,255</u>	<u>13,003</u>
<b>CURRENT ASSETS</b>				
Inventories	14	9,616	9,751	8,632
Trade receivables	15	15,861	13,888	15,026
Prepayments, deposits and other receivables	16	1,086	5,059	7,206
Due from a related company	32(c)	96,982	63,087	70,180
Pledged deposits	17	5,003	9,000	9,000
Cash and cash equivalents	17	<u>1,683</u>	<u>799</u>	<u>984</u>
		<u>130,231</u>	<u>101,584</u>	<u>111,028</u>
Assets classified as held for sale	18	—	3,495	3,549
Total current assets		<u>130,231</u>	<u>105,079</u>	<u>114,577</u>
<b>CURRENT LIABILITIES</b>				
Trade payables	19	6,971	8,538	10,511
Other payables and accruals	20	10,702	8,188	12,935
Interest-bearing bank borrowings	21	58,292	36,930	40,562
Tax payable		2,828	1,582	1,690
Government grants	22	25	—	—
Derivative financial instrument	23	<u>1,143</u>	<u>—</u>	<u>—</u>
Total current liabilities		<u>79,961</u>	<u>55,238</u>	<u>65,698</u>
NET CURRENT ASSETS		<u>50,270</u>	<u>49,841</u>	<u>48,879</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>69,782</u>	<u>63,096</u>	<u>61,882</u>

		As at 31 December		As at
		2015	2016	31 May
	Notes	HK\$'000	HK\$'000	2017
				HK\$'000
<b>NON-CURRENT LIABILITIES</b>				
Government grants	22	171	—	—
Deferred tax liabilities	24	87	135	181
Other payables and accruals	20	<u>2,113</u>	<u>1,576</u>	<u>1,532</u>
Total non-current liabilities		<u>2,371</u>	<u>1,711</u>	<u>1,713</u>
Net assets		<u>67,411</u>	<u>61,385</u>	<u>60,169</u>
<b>EQUITY</b>				
Share capital	25	—	—	—
Reserves	26	<u>67,411</u>	<u>61,385</u>	<u>60,169</u>
Total equity		<u>67,411</u>	<u>61,385</u>	<u>60,169</u>

## Combined Statements of Changes in Equity

	Share capital <i>HK\$'000</i> <i>(note 25)</i>	Merger reserve <i>HK\$'000</i> <i>(note 26)</i>	Statutory surplus reserve <i>HK\$'000</i> <i>(note 26)</i>	Available- for-sale investment revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2015	—	40,000	5,130	—	14,791	6,727	66,648
Profit for the year	—	—	—	—	—	4,678	4,678
Other comprehensive loss for the year:							
Exchange differences on translation of foreign operations	—	—	—	—	(3,915)	—	(3,915)
Total comprehensive income/(loss) for the year	—	—	—	—	(3,915)	4,678	763
Transfer from retained profits	—	—	244	—	—	(244)	—
At 31 December 2015 and 1 January 2016	<u>—</u>	<u>40,000*</u>	<u>5,374*</u>	<u>—*</u>	<u>10,876*</u>	<u>11,161*</u>	<u>67,411</u>
Loss for the year	—	—	—	—	—	(477)	(477)
Other comprehensive loss for the year:							
Change in fair value of an available- for-sale investment, net of tax	—	—	—	(966)	—	—	(966)
Exchange differences on translation of foreign operations	—	—	—	—	(4,583)	—	(4,583)
Total comprehensive loss for the year	—	—	—	(966)	(4,583)	(477)	(6,026)
Transfer from retained profits	—	—	296	—	—	(296)	—
At 31 December 2016	<u>—</u>	<u>40,000*</u>	<u>5,670*</u>	<u>(966)*</u>	<u>6,293*</u>	<u>10,388*</u>	<u>61,385</u>

	Share capital HK\$'000 (note 25)	Merger reserve HK\$'000 (note 26)	Statutory surplus reserve HK\$'000 (note 26)	Available- for-sale investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 31 December 2016 and 1 January 2017	—	40,000	5,670	(966)	6,293	10,388	61,385
Loss for the period	—	—	—	—	—	(2,471)	(2,471)
Other comprehensive loss for the period:							
Change in fair value of an available- for-sale investment, net of tax	—	—	—	73	—	—	73
Exchange differences on translation of foreign operations	—	—	—	—	1,182	—	1,182
Total comprehensive loss for the period	—	—	—	73	1,182	(2,471)	(1,216)
Transfer from retained profits	—	—	88	—	—	(88)	—
At 31 May 2017	—	40,000*	5,758*	(893)*	7,475*	7,829*	60,169
(Unaudited)							
At 31 December 2015 and 1 January 2016	—	40,000	5,374	—	10,876	11,161	67,411
Loss for the period	—	—	—	—	—	(1,732)	(1,732)
Other comprehensive loss for the period:							
Change in fair value of an available- for-sale investment, net of tax	—	—	—	(993)	—	—	(993)
Exchange differences on translation of foreign operations	—	—	—	—	(763)	—	(763)
Total comprehensive loss for the period	—	—	—	(993)	(763)	(1,732)	(3,488)
Transfer from retained profits	—	—	60	—	—	(60)	—
At 31 May 2016	—	40,000	5,434	(993)	10,113	9,369	63,923

\* These reserve accounts comprise the combined reserves of HK\$67,411,000, HK\$61,385,000 and HK\$60,169,000 in the combined statements of financial position as at 31 December 2015 and 2016 and 31 May 2017, respectively.

## Combined Statements of Cash Flows

	Notes	Year ended 31 December		Five months ended 31 May	
		2015 HK\$'000	2016 HK\$'000	2016 HK\$'000	2017 HK\$'000
				(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before tax		6,531	623	(1,529)	(2,111)
Adjustments for:					
Finance costs	7	3,238	2,892	1,311	1,001
Bank interest income	5	(12)	(5)	(2)	—
Fair value loss/(gain), net:					
Derivative instrument — transactions not qualifying as hedges	6	1,179	(249)	(249)	—
Recognition of government grants	5	(25)	(191)	(10)	—
Depreciation	12	1,457	1,064	506	149
Recognition of prepaid lease payments for buildings	16	657	286	140	127
Loss/(gain) on disposal of items of property, plant and equipment	6	13	1,893	15	(57)
Gain on disposal of a subsidiary	5	—	(217)	—	—
		13,038	6,096	182	(891)
(Increase)/decrease in inventories		2,440	(903)	(1,813)	1,293
(Increase)/decrease in trade receivables		1,604	613	(1,913)	(755)
(Increase)/decrease in prepayments, deposits, other receivables		132	(832)	(496)	(2,038)
Increase/(decrease) in trade payables		(799)	2,229	112	1,775
Increase/(decrease) in other payables and accruals		281	(1,676)	(1,014)	4,557
Cash generated from/(used in) operations		16,696	5,527	(4,942)	3,941
Interest received		12	5	2	—
Hong Kong profits tax paid		(118)	—	—	—
PRC taxes paid		(402)	(1,798)	(1,546)	(72)
Net cash flows from/(used in) operating activities		16,188	3,734	(6,486)	3,869

	Year ended 31 December		Five months ended 31 May	
	2015	2016	2016	2017
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of items of property, plant and equipment	(1,575)	(1,995)	(1,342)	(132)
Proceeds from disposal of items of property, plant and equipment	—	107	107	113
Purchase of the available-for-sale investment	—	(5,462)	(5,462)	—
Advance to a related company	(95,429)	(64,062)	(5,926)	(20,655)
Repayments from a related company	76,897	95,249	22,537	14,360
Disposal of a subsidiary	33	—	566	—
Increase in pledged deposits	(5,003)	(9,000)	(5,005)	—
Settlements of derivative instruments	23	(57)	(894)	—
Decrease in pledged deposits	3,013	5,003	5,003	—
Net cash flows from/(used in) investing activities	(22,154)	19,512	9,285	(6,314)
Net cash flows from/(used in) operating and investing activities	(5,966)	23,246	2,799	(2,445)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
New bank loans	86,528	61,421	35,660	14,224
Repayments of bank loans	(74,564)	(81,628)	(39,263)	(14,187)
Interest paid	(3,238)	(2,892)	(1,311)	(1,001)
Net cash flows from/(used in) financing activities	8,726	(23,099)	(4,914)	(964)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
Cash and cash equivalents at beginning of year/period	(7,012)	(4,309)	(4,309)	(4,218)
Effect of foreign exchange rate changes, net	(57)	(56)	(5)	10
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD</b>	<b>(4,309)</b>	<b>(4,218)</b>	<b>(6,429)</b>	<b>(7,617)</b>



	<i>Notes</i>	<b>Year ended 31 December</b>		<b>Five months ended 31 May</b>	
		<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>2017</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(Unaudited)					
ANALYSIS OF BALANCES OF					
CASH AND CASH EQUIVALENTS					
Cash and bank balances	17	883	799	1,572	984
Non-pledged time deposits with original maturity of less than three months when acquired	17	<u>800</u>	<u>—</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents as stated in the combined statements of financial position		1,683	799	1,572	984
Bank overdrafts	21	<u>(5,992)</u>	<u>(5,017)</u>	<u>(8,001)</u>	<u>(8,601)</u>
Cash and cash equivalents as stated in the combined statements of cash flows		<u>(4,309)</u>	<u>(4,218)</u>	<u>(6,429)</u>	<u>(7,617)</u>

## Statements of Financial Position of the Company

		<b>31 December</b>	<b>31 May</b>
		<b>2016</b>	<b>2017</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Investment in a subsidiary		<u>—</u>	<u>—</u>
Total non-current assets		<u>—</u>	<u>—</u>
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables	<i>16</i>	<u>660</u>	<u>2,820</u>
Total current assets		<u>660</u>	<u>2,820</u>
<b>CURRENT LIABILITIES</b>			
Other payables and accruals	<i>20</i>	<u>660</u>	<u>2,820</u>
Total current liabilities		<u>660</u>	<u>2,820</u>
<b>NET CURRENT ASSETS</b>			
Net assets		<u>—</u>	<u>—</u>
<b>EQUITY</b>			
Share capital	<i>25</i>	<u>—</u>	<u>—</u>
Total equity		<u>—</u>	<u>—</u>

## II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law (as revised) of the Cayman Islands on 18 August 2016. The registered office address of the Company is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were principally engaged in the manufacture and trading of high performance sewing threads and broad categories of garment accessories.

In the opinion of the directors, the ultimate holding company of the Group is Three Gates Investment Limited (the "Ultimate Holding Company"), which was incorporated in the British Virgin Islands ("BVI") with limited liability and is controlled by Mr. Wong Kwok Wai ("Mr. Wong").

The Company and its subsidiaries now comprising the Group underwent the reorganisation as set out in the paragraph headed "The Reorganisation" in the section headed "History, Reorganisation and Corporate Structure" in the Prospectus (the "Reorganisation"). Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, the Company has direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/ paid-up/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Strat Tech Holdings Limited*	BVI 25 August 2016	US\$50,000	100%	—	Investment holding
Tseyu International Trading Company Limited** ("Tseyu")	Hong Kong 17 March 1978	HK\$5,000,000	—	100%	Trading of sewing threads and broad categories of garment accessories
Newchamp Industries Limited** ("Newchamp")	Hong Kong 18 March 1993	HK\$30,000,000	—	100%	Trading of sewing threads
Cheerful Keen Limited*	BVI 5 January 2010	US\$1	—	100%	Trading of sewing threads and broad categories of garment accessories
Guangzhou Xinhua Thread Company Limited*** ("Guangzhou Xinhua")	People's Republic of China (the "PRC")/ Mainland China 18 June 1993	HK\$52,250,000	—	100%	Manufacture and trading of sewing threads and broad categories of garment accessories

\* No audited financial statements have been prepared for the companies since the dates of their respective incorporation as these companies are either not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation or have not been involved in any significant business transactions.

\*\* The statutory financial statements of these entities for the years ended 31 December 2015 and 2016 prepared under HKFRSs were audited by Ernst & Young, certified public accountants registered in Hong Kong.

\*\*\* Guangzhou Xinhua is registered as a wholly-foreign-owned enterprise under PRC law. The statutory financial statements of the entity for the years ended 31 December 2015 and 2016 prepared under PRC Generally Accepted Accounting Principles were audited by Guangzhou Zhongqin Certified Public Accountants Company Limited, certified public accountants registered in the PRC.

\*\*\*\* In June 2016, the Group disposed of the entire issued share capital of 佛山市至華線業有限公司 (“Zhihua”) (the particulars of which are as follows) to an independent third party for a cash consideration of RMB500,000 (equivalent to HK\$584,000) (note 33). Upon completion of the disposal, the Group ceased to have any interest in Zhihua. The results, cash flows, assets and liabilities of Zhihua were included in the Historical Financial Information of the Group until the date of disposal.

Name	Place and date of registration and operations	Nominal value of paid-up share capital	Principal activities
佛山市至華線業有限公司	PRC/Mainland China 23 January 2014	RMB500,000	Manufacture and trading of sewing threads and broad categories of garment accessories

## 2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, as more fully explained in the paragraph headed “The Reorganisation” in the section headed “History, Reorganisation and Corporate Structure” in the Prospectus, the Company became the holding company of the companies now comprising the Group subsequent to the end of the Relevant Periods on 22 June 2017. The companies now comprising the Group were under the common control of Mr. Wong, the controlling shareholder of the Group, before and after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared on a combined basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

The combined statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods and the five months ended 31 May 2016 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries first came under the common control of the controlling shareholder, where this is a shorter period. The combined statements of financial position of the Group as at 31 December 2015 and 2016 and 31 May 2017 have been prepared to present the assets and liabilities of the subsidiaries using the existing book values from the controlling shareholder’s perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interests in subsidiaries and/or businesses held by parties other than the controlling shareholder and changes therein, prior to the Reorganisation, are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on combination.

## 2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2017, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods and in the period covered by the Interim Comparative Financial Information.

The Historical Financial Information has been prepared under the historical cost convention, except for an available-for-sale investment and a derivative financial instrument which have been measured at fair value.

### 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective in the Historical Financial Information.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> <sup>1</sup>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i> <sup>1</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
HKFRS 15	<i>Revenue from Contracts with Customers</i> <sup>1</sup>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15</i> <sup>1</sup>
HKFRS 16	<i>Leases</i> <sup>2</sup>
Amendments to HKAS 40	<i>Transfers of Investment Property</i> <sup>1</sup>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i> <sup>1</sup>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i> <sup>2</sup>
Annual Improvements to HKFRSs 2014–2016 Cycle	<i>Amendments to the following two HKFRSs:</i> — <i>HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards</i> <sup>1</sup> — <i>HKAS 28 Investments in Associates and Joint Ventures</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> No mandatory effective date yet determined but is available for adoption

Other than explained below regarding the impact of HKFRS 9, HKFRS 15 and HKFRS 16, the Group expects that the adoption of the above new and revised standards will have no significant impact on the Historical Financial Information.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group performed high-level assessment of the impact of the adoption of HKFRS 9. This preliminary assessment is based on current available information and may be subject to changes arising from future detailed analysis or additional reasonable and supportable information being made available to the Group in the future. The Group's expected impacts arising from the adoption of HKFRS 9 are summarised as follows:

#### (a) Classification and measurement

All recognised financial assets that are within the scope of HKAS 39 are subsequently measured at amortised cost or fair value under HKFRS 9. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods and their fair value changes are recognised in profit or loss. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss. All of the above represent new requirements for classification and measurement for financial assets under HKFRS 9 that will change the way the Group classifies and measures its financial assets under 'financial assets at fair value through profit or loss', 'loans and receivables' and 'available-for-sale financial assets' under the existing HKAS 39.

The Group is analyzing its business models, contract terms and changes to its existing credit exposures to assess the potential impact on its financial statements resulting from the adoption of HKFRS 9. Given the nature of the Group's operations, it is expected to have an impact on the classification of financial instruments.

**(b) Impairment**

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of HKFRS 9. The Group does not expect any significant impact from these changes.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption. Based on the preliminary analysis, the Group does not expect any significant impact on the Group's revenue recognition upon adoption of HKFRS 15.

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases — Incentives and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

As set out in note 30 to the Historical Financial Information, the total operating lease commitments of the Group as at 31 December 2015 and 2016 and 31 May 2017 were HK\$25,462,000, HK\$10,585,000 and HK\$9,962,000, respectively. Based on preliminary analysis, the Group does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in a significant impact on the Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the combined statement of financial position as right-of-use assets and lease liabilities.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Subsidiaries**

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

#### **Basis of combination**

The combined financial statements include the financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are combined from the beginning of the Relevant Periods or the date on which a subsidiary first came under the common control of the controlling shareholders, whichever is later, and continue to be combined until the date that the Company's control ceases. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group has directly disposed of the related assets or liabilities.

#### **Fair value measurement**

The Group measures its available-for-sale investment and derivative financial instrument at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the Relevant Periods.

**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

**Related parties**

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.



**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Production machinery	10% to 20%
Office equipment	20% to 30%
Leasehold improvements	20%
Vehicles	20% to 30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plants and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

**Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms. Prepaid lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

**Investments and other financial assets***Initial recognition and measurement*

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the combined statements of profit or loss and other comprehensive income. The loss arising from impairment is recognised in profit or loss in other expenses.

#### *Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in life insurance policies.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income or other expenses, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the combined statements of profit or loss and other comprehensive income in other income or other expenses. Interest earned whilst holding the available-for-sale financial investments is reported as interest income and is recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

#### **Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's combined statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### **Impairment of financial assets**

The Group assesses at the end of each of the Relevant Periods whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the combined statements of profit or loss and other comprehensive income.

#### *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each of the Relevant Periods whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

**Financial liabilities***Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, a derivative financial instrument, financial liabilities included in other payables and accruals and interest-bearing bank borrowings.

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss and other comprehensive income.

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Derivative financial instruments***Initial recognition and subsequent measurement*

The Group uses a derivative financial instrument to hedge its foreign currency risk. The derivative financial instrument is initially recognised at fair value on the date on which a derivative contract is entered into and is subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The derivative instrument entered into by the Group does not qualify for hedge accounting, and changes in the fair value of this derivative instrument is recognised in profit or loss.

#### *Current versus non-current classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows). Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

#### **Cash and cash equivalents**

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the combined statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

#### **Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries/jurisdictions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

#### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

#### **Employee benefits**

##### *Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

#### **Borrowing costs**

Borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

#### **Foreign currencies**

The Historical Financial Information is presented in HK\$, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income is also recognised in other comprehensive income, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than HK\$. As at the end of each of the Relevant Periods, the assets and liabilities of these entities are translated into HK\$ at the exchange rates prevailing at the end of each of the Relevant Periods and their statements of profit or loss and other comprehensive income are translated into HK\$ at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the combined statements of cash flows, the cash flows of overseas subsidiaries are translated into HK\$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into HK\$ at the weighted average exchange rates for the year.

### **3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### **Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

##### *Classification of a life insurance policy*

On 25 January 2016, the Group entered into a life insurance policy with an insurance company to insure an executive director. Under the policy, the Group is the beneficiary and the policy holder. As the policy is of no fixed maturity and payment, and the Group neither acquired the policy for the purpose of selling it in the near term nor designated it as a

financial asset at fair value through profit or loss, the Group classified the life insurance policy as an available-for-sale investment, with the premium paid as initial fair value and the surrender value as the estimated fair value as at the end of each of the Relevant Periods.

#### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

#### *Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each of the Relevant Periods. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit by applying key assumptions such as growth rate and gross profit margin and choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2015 and 2016 and 31 May 2017, the Group had property, plant and equipment amounting to HK\$14,747,000, HK\$6,171,000 and HK\$6,190,000, respectively.

#### *Deferred tax assets*

Deferred tax assets are recognised for certain deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 24 to the Historical Financial Information.

#### *Impairment of trade and other receivables*

The policy for provision for impairment losses of the Group is based on the evaluation of collectability, the aged analysis of trade and other receivables and management's judgement. A considerable amount of judgement 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 customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. No impairment losses have been recognised for trade and other receivables as at the end of each of the Relevant Periods. Further details are contained in notes 15 and 16 to the Historical Financial Information.

#### *Write-down of inventories to net realisable value*

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the provision requires management's judgement and estimates on market conditions based on latest selling price and recent orders received. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of inventories and the write-down charge/write-back of inventories in the period in which such estimate has been changed. No impairment provision has been recognised for inventories as at the end of each of the Relevant Periods. Further details are contained in note 14 to the Historical Financial Information.



## 4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and trading of high performance sewing threads and broad categories of garment accessories. For management purposes, the Group operates in one business unit and has one reportable operating segment, which is the thread segment that manufactures and sells sewing threads and garment accessories. Accordingly, no further operating segment information is presented.

**Geographical information***(a) Revenue from external customers*

	Year ended 31 December		Five months ended 31 May	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Mainland China	48,449	38,733	15,265	12,986
Overseas	28,954	27,927	7,967	10,135
Hong Kong	<u>5,426</u>	<u>5,964</u>	<u>2,214</u>	<u>2,984</u>
	<u>82,829</u>	<u>72,624</u>	<u>25,446</u>	<u>26,105</u>

The revenue information is based on the locations of the customers.

*(b) Non-current assets*

	As at 31 December		As at
	2015	2016	31 May
	HK\$'000	HK\$'000	HK\$'000
Mainland China	17,524	7,207	7,106
Hong Kong	<u>145</u>	<u>190</u>	<u>179</u>
	<u>17,669</u>	<u>7,397</u>	<u>7,285</u>

The non-current asset information is based on the locations of the assets and excludes deferred tax assets and an available-for-sale investment.

**Information about a major customer**

Revenue amounting to 10 percent or more of the Group's revenue derived from sales to a single customer during the Relevant Periods and the five months ended 31 May 2016 is set out in the following table:

	Year ended 31 December		Five months ended 31 May	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Customer A	<u>22,218</u>	<u>20,556</u>	<u>5,035</u>	<u>8,355</u>

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after trade discounts and sales taxes.

An analysis of revenue, other income and gains is as follows:

	<i>Notes</i>	<b>Year ended 31 December</b>		<b>Five months ended 31 May</b>	
		<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>2017</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				(Unaudited)	
<b>Revenue</b>					
Sales of goods		<u>82,829</u>	<u>72,624</u>	<u>25,446</u>	<u>26,105</u>
<b>Other income and gains</b>					
Fair value gains, net:					
Derivative instrument — transactions not qualifying as hedges	23	—	249	249	—
Exchange gains, net		641	853	18	—
Gain on disposal of a subsidiary	33	—	217	—	—
Government grants*	22	25	191	10	—
Bank interest income		12	5	2	—
Gain on disposal of items of property, plant and equipment		<u>—</u>	<u>—</u>	<u>—</u>	<u>57</u>
		<u>678</u>	<u>1,515</u>	<u>279</u>	<u>57</u>

\* Government grants have been received from the PRC government authorities in recognition of the Group's efforts for water processing construction in Guangzhou, the PRC. There were no unfulfilled conditions or contingencies in relation to the grants. They are released to other income and gains over the expected useful lives of the relevant assets — Upon the disposal of the relevant assets, the unrecognised government grants were fully released to other income and gains in 2016.

## 6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December		Five months ended 31 May	
		2015 HK\$'000	2016 HK\$'000	2016 HK\$'000 (Unaudited)	2017 HK\$'000
Cost of inventories sold		56,558	45,617	16,971	16,785
Depreciation	12	1,457	1,064	506	149
Recognition of prepaid lease payments for buildings	16	657	286	140	127
Minimum lease payments under operating leases					
Land and buildings and office equipment		2,290	1,705	623	768
Contingent rent for production machinery		2,244	459	459	—
		<u>4,534</u>	<u>2,164</u>	<u>1,082</u>	<u>768</u>
Auditors' remuneration		200	200	83	83
Employee benefit expense (excluding directors' and chief executive's remuneration as disclosed in note 8):					
Wages and salaries		16,783	14,594	6,019	5,182
Pension scheme contributions		2,518	2,161	1,059	645
Severance payments		—	1,858*	873*	293***
		<u>19,301</u>	<u>18,613</u>	<u>7,951</u>	<u>6,120</u>
Listing expenses*		—	6,552	2,393	4,257
Fair value loss/(gain), net:					
Derivative instrument — transactions not qualifying as hedges**	23	1,179	(249)	(249)	—
Foreign exchange gain, net**		(641)	(853)	(18)	506
Loss/(gain) on disposal of items of property, plant and equipment**		13	1,893	15	(57)
Gain on disposal of a subsidiary**	5, 33	—	(217)	—	—
Bank interest income	5	(12)	(5)	(2)	—

\* The listing expenses and severance payments are included in "Other expenses" in the combined statements of profit or loss and other comprehensive income, respectively.

\*\* The loss and gain are included in "Other expenses" and "Other income and gains" in the combined statements of profit or loss and other comprehensive income, respectively.

\*\*\* The severance payments are included in "Administrative expenses" in the combined statements of profit or loss and other comprehensive income.

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December		Five months ended 31 May	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Interest on bank loans and overdrafts	<u>3,238</u>	<u>2,892</u>	<u>1,311</u>	<u>1,001</u>

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company did not have any chief executive, executive directors, non-executive directors and independent non-executive directors at any time before its incorporation on 18 August 2016.

Subsequent to the Incorporation of the Company, Mr. Wong and Mr. Lee Wing Hong were appointed as executive directors of the Company; Mr. Ng Chan Lam was appointed as non-executive director of the Company and; Mr. To King Yan, Dr. Yeung Ngai Man and Mr. Sung Alfred Lee Ming were appointed as independent non-executive directors of the Company.

Mr. Lee Wing Hong and the non-executive directors did not receive any remuneration during the Relevant Periods and the five months ended 31 May 2016. The remuneration of Mr. Wong as recorded in the financial statements of the subsidiary is set out below:

	Year ended 31 December		Five months ended 31 May	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Fees	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other emoluments:				
Salaries, allowances and benefits in kind	<u>643</u>	<u>623</u>	<u>256</u>	<u>266</u>
	<u>643</u>	<u>623</u>	<u>256</u>	<u>266</u>

An analysis of Mr. Wong's remuneration is as follows:

	Salaries, allowances and benefits in kind			
	Year ended 31 December	Year ended 31 December	Five months ended 31 May	Five months ended 31 May
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Chief executive and executive director:				
Mr. Wong	<u>643</u>	<u>623</u>	<u>256</u>	<u>266</u>

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods and the five months ended 31 May 2016.

## 9. FIVE HIGHEST PAID EMPLOYEES

One of the five highest paid individuals was a director for the years ended 31 December 2015 and 2016 and the five months ended 31 May 2016 and 2017, details of whose remuneration are set out in note 8 above.

Details of the remuneration of the remaining four highest paid employees, who are neither a director nor the chief executive during the Relevant Periods and the five months ended 31 May 2016 are as follows:

	Year ended 31 December		Five months ended 31 May	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Salaries, allowances and benefits in kind	1,486	1,293	543	629
Pension scheme contributions	<u>17</u>	<u>67</u>	<u>7</u>	<u>60</u>
	<u>1,503</u>	<u>1,360</u>	<u>550</u>	<u>689</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December		Five months ended 31 May	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Nil to HK\$1,000,000	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

During the Relevant Periods and the five months ended 31 May 2016, no emoluments were paid by the Group to the four highest paid individuals as an inducement to join or upon joining the Group. None of the four highest paid individuals have waived any remuneration during the Relevant Periods and the five months ended 31 May 2016.

## 10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which subsidiaries of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Relevant Periods and the five months ended 31 May 2016.

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to corporate income tax at a rate of 25% on the taxable income. Preferential tax treatment is available to the Group's PRC subsidiary, Zhihua, which was disposed of in June 2016, since it was qualified as a small and low-profit enterprise and was subject to income tax at a preferential tax rate of 20% during the Relevant Periods and the five months ended 31 May 2016. Besides, pursuant to Caishui [2014] No.34 and Caishui [2015] No.34, Zhihua was entitled to a further deduction of 50% of the taxable income during the Relevant Periods and the five months ended 31 May 2016.

	Year ended 31 December		Five months ended 31 May	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
Current — Hong Kong and Mainland China	1,376	663	48	171
Deferred (note 24)	<u>477</u>	<u>437</u>	<u>155</u>	<u>189</u>
	<u>1,853</u>	<u>1,100</u>	<u>203</u>	<u>360</u>

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rates( i.e. the statutory tax rates) to the effective tax rates, are as follows:

**Year ended 31 December 2015**

	Hong Kong		Mainland China		Elsewhere		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>114</u>		<u>6,420</u>		<u>(3)</u>		<u>6,531</u>	
Tax at the statutory tax rate	19	16.5	1,605	25.0	—	—	1,624	24.9
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	176	154.4	—	—	—	—	176	2.7
Expenses not deductible for tax	<u>2</u>	<u>1.8</u>	<u>51</u>	<u>0.8</u>	<u>—</u>	<u>—</u>	<u>53</u>	<u>0.8</u>
Tax charge at the Group's effective rate	<u>197</u>	<u>172.7</u>	<u>1,656</u>	<u>25.8</u>	<u>—</u>	<u>—</u>	<u>1,853</u>	<u>28.4</u>

**Year ended 31 December 2016**

	Hong Kong		Mainland China		Elsewhere		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>(1,325)</u>		<u>1,953</u>		<u>(5)</u>		<u>623</u>	
Tax at the statutory tax rate	(218)	16.5	488	25.0	—	—	270	43.3
Different tax rate for specific entities in the PRC	—	—	11	0.6	—	—	11	1.8
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	48	(3.6)	—	—	—	—	48	7.7
Expenses not deductible for tax	851	(64.2)	4	0.2	—	—	855	137.2
Income not subject to tax	<u>—</u>	<u>—</u>	<u>(84)</u>	<u>(4.3)</u>	<u>—</u>	<u>—</u>	<u>(84)</u>	<u>(13.5)</u>
Tax charge at the Group's effective rate	<u>681</u>	<u>(51.4)</u>	<u>419</u>	<u>21.5</u>	<u>—</u>	<u>—</u>	<u>1,100</u>	<u>176.5</u>

**Five months ended 31 May 2017**

	Hong Kong		Mainland China		Elsewhere		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>(3,003)</u>		<u>893</u>		<u>(1)</u>		<u>(2,111)</u>	
Tax at the statutory tax rate	(495)	16.5	223	25.0	—	—	(272)	12.9
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	46	(1.5)	—	—	—	—	46	(2.2)
Expenses not deductible for tax	<u>576</u>	<u>(19.2)</u>	<u>10</u>	<u>1.1</u>	<u>—</u>	<u>—</u>	<u>586</u>	<u>(27.8)</u>
Tax charge at the Group's effective rate	<u>127</u>	<u>(4.2)</u>	<u>233</u>	<u>26.1</u>	<u>—</u>	<u>—</u>	<u>360</u>	<u>(17.1)</u>

## Five months ended 31 May 2016 (Unaudited)

	Hong Kong		Mainland China		Elsewhere		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>(2,049)</u>		<u>522</u>		<u>(2)</u>		<u>(1,529)</u>	
Tax at the statutory tax rate	(338)	16.5	130	25.0	—	—	(208)	13.6
Different tax rates for specific entities in the PRC	—	—	11	2.1	—	—	11	(0.7)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	26	(1.3)	—	—	—	—	26	(1.7)
Expenses not deductible for tax	<u>370</u>	<u>(18.1)</u>	<u>4</u>	<u>0.7</u>	<u>—</u>	<u>—</u>	<u>374</u>	<u>(24.5)</u>
Tax charge at the Group's effective rate	<u>58</u>	<u>(2.9)</u>	<u>145</u>	<u>27.8</u>	<u>—</u>	<u>—</u>	<u>203</u>	<u>(13.3)</u>

## 11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Relevant Periods on a combined basis.

## 12. PROPERTY, PLANT AND EQUIPMENT

	Production machinery HK\$'000	Office equipment HK\$'000	Leasehold improvements HK\$'000	Vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>31 December 2015</b>						
At 1 January 2015:						
Cost	81,152	2,763	520	2,919	2,679	90,033
Accumulated depreciation	<u>(69,879)</u>	<u>(2,305)</u>	<u>(321)</u>	<u>(2,357)</u>	<u>—</u>	<u>(74,862)</u>
Net carrying amount	<u>11,273</u>	<u>458</u>	<u>199</u>	<u>562</u>	<u>2,679</u>	<u>15,171</u>
At 1 January 2015, net of accumulated depreciation						
depreciation	11,273	458	199	562	2,679	15,171
Additions	40	—	—	—	1,899	1,939
Disposal	—	(13)	—	—	—	(13)
Depreciation provided during the year	(1,051)	(134)	(104)	(168)	—	(1,457)
Exchange realignment	<u>(615)</u>	<u>(17)</u>	<u>—</u>	<u>(26)</u>	<u>(235)</u>	<u>(893)</u>
At 31 December 2015, net of accumulated depreciation	<u>9,647</u>	<u>294</u>	<u>95</u>	<u>368</u>	<u>4,343</u>	<u>14,747</u>
At 31 December 2015:						
Cost	76,453	2,515	520	2,748	4,343	86,579
Accumulated depreciation	<u>(66,806)</u>	<u>(2,221)</u>	<u>(425)</u>	<u>(2,380)</u>	<u>—</u>	<u>(71,832)</u>
Net carrying amount	<u>9,647</u>	<u>294</u>	<u>95</u>	<u>368</u>	<u>4,343</u>	<u>14,747</u>

	Production machinery <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>31 December 2016</b>						
At 31 December 2015 and at 1 January 2016:						
Cost	76,453	2,515	520	2,748	4,343	86,579
Accumulated depreciation	(66,806)	(2,221)	(425)	(2,380)	—	(71,832)
Net carrying amount	<u>9,647</u>	<u>294</u>	<u>95</u>	<u>368</u>	<u>4,343</u>	<u>14,747</u>
At 1 January 2016, net of accumulated depreciation						
depreciation	9,647	294	95	368	4,343	14,747
Additions	44	30	159	175	1,646	2,054
Disposal	(1,890)	(18)	—	—	(594)	(2,502)
Disposal of a subsidiary	—	—	—	—	(2,836)	(2,836)
Depreciation provided during the year	(809)	(78)	(94)	(83)	—	(1,064)
Transfer to assets held for sale	(1,184)	—	—	—	(2,469)	(3,653)
Exchange realignment	(444)	(14)	—	(27)	(90)	(575)
At 31 December 2016, net of accumulated depreciation	<u>5,364</u>	<u>214</u>	<u>160</u>	<u>433</u>	<u>—</u>	<u>6,171</u>
At 31 December 2016:						
Cost	49,825	2,260	678	2,742	—	55,505
Accumulated depreciation	(44,461)	(2,046)	(518)	(2,309)	—	(49,334)
Net carrying amount	<u>5,364</u>	<u>214</u>	<u>160</u>	<u>433</u>	<u>—</u>	<u>6,171</u>
	<b>Production machinery <i>HK\$'000</i></b>	<b>Office equipment <i>HK\$'000</i></b>	<b>Leasehold improvements <i>HK\$'000</i></b>	<b>Vehicles <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>	
<b>31 May 2017</b>						
At 31 December 2016 and at 1 January 2017:						
Cost	49,825	2,260	678	2,742	55,505	
Accumulated depreciation	(44,461)	(2,046)	(518)	(2,309)	(49,334)	
Net carrying amount	<u>5,364</u>	<u>214</u>	<u>160</u>	<u>433</u>	<u>6,171</u>	
At 1 January 2017, net of accumulated depreciation						
depreciation	5,364	214	160	433	6,171	
Additions	—	5	9	118	132	
Disposal	—	—	—	(56)	(56)	
Depreciation provided during the period	(89)	(15)	(19)	(26)	(149)	
Exchange realignment	82	3	—	7	92	
At 31 May 2017, net of accumulated depreciation	<u>5,357</u>	<u>207</u>	<u>150</u>	<u>476</u>	<u>6,190</u>	
At 31 May 2017:						
Cost	50,603	2,289	687	2,345	55,924	
Accumulated depreciation	(45,246)	(2,082)	(537)	(1,869)	(49,734)	
Net carrying amount	<u>5,357</u>	<u>207</u>	<u>150</u>	<u>476</u>	<u>6,190</u>	



Certain items of the Group's machinery with net carrying amounts of approximately HK\$6,897,000, HK\$4,212,000 and nil as at 31 December 2015 and 2016 and 31 May 2017, respectively, were pledged to secure general banking facilities granted to the Group (note 21).

### 13. AVAILABLE-FOR-SALE INVESTMENT

	As at 31 December		As at 31 May
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Life insurance policy, at fair value	—	4,305	4,392

On 25 January 2016, the Group entered into a life insurance policy with an insurance company to insure an executive director. Under the policy, the Group is the beneficiary and the policy holder. The Group paid upfront premiums for the policy and may surrender the policy any time by making a written request and receive cash based on the surrender value of the policy at the date of withdrawal, which is calculated by the insurer. In the opinion of the directors, the surrender value of the policy provided by the insurance company is the best approximation of its fair value, which is categorised within level 3 of the fair value hierarchy.

The gross changes in fair value of the Group's available-for-sale investment amounted to HK\$1,157,000 and HK\$87,000, recognised in other comprehensive income for the year ended 31 December 2016 and the five months ended 31 May 2017, respectively. In the opinion of the directors, no provision for impairment is necessary in respect of the Group's available-for-sale investment considering the fact that the decrease in the fair value of the Group's available-for-sale investment was derived from the surrender compensations which would decline gradually year by year and be fully exempted in 2035.

As at 31 December 2016 and 31 May 2017, the Group's available-for-sale investment was pledged as security for bank facilities granted to the Group. Further details are contained in note 21 to the Historical Financial Information.

In the opinion of the directors, the Group's available-for-sale investment would not be surrendered within the next 12 months and was therefore classified as a non-current asset.

### 14. INVENTORIES

	As at 31 December		As at 31 May
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Raw materials	3,758	4,028	3,443
Work in progress	1,876	2,211	1,687
Finished goods	3,982	3,512	3,502
	<u>9,616</u>	<u>9,751</u>	<u>8,632</u>

### 15. TRADE RECEIVABLES

	As at 31 December		As at 31 May
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Trade receivables	<u>15,861</u>	<u>13,888</u>	<u>15,026</u>

Trade receivables represented the outstanding contracted value for the sale of goods receivable from the customers at each reporting date.

The Group's trading terms with its customers are mainly on credit. The credit period is generally from one to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. The Group had significant concentrations of credit risk as 24%, 25% and 34% of the trade receivables were derived from a single customer as at 31 December 2015 and 2016 and 31 May 2017, respectively. The trade receivables from such customer were within the credit period. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of each of the Relevant Periods, based on the transaction date, is as follows:

	As at 31 December		As at 31 May
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Within 1 month	11,330	8,908	8,888
1 to 2 months	3,076	3,119	4,766
2 to 3 months	787	1,304	738
Over 3 months	668	557	634
	<u>15,861</u>	<u>13,888</u>	<u>15,026</u>

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	As at 31 December		As at 31 May
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Neither past due nor impaired	14,848	13,331	14,464
Less than 1 month past due	971	535	424
1 to 3 months past due	42	22	138
	<u>15,861</u>	<u>13,888</u>	<u>15,026</u>

Trade receivables are all related to receivables from customers with no recent history of default. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Trade receivables amounting to HK\$4,985,000, HK\$6,405,000 and HK\$7,105,000 as at 31 December 2015 and 2016 and 31 May 2017 were pledged as security for the Group's bank facilities (note 21).

## 16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

### Group

	As at 31 December		As at 31 May
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Prepaid lease payment for buildings (note)	1,911	1,428	1,322
Other prepayments	391	1,234	3,091
Deposits and other receivables	1,706	3,623	3,888
	4,008	6,285	8,301
Portion classified as non-current assets	<u>(2,922)</u>	<u>(1,226)</u>	<u>(1,095)</u>
Current portion included in prepayments, deposits and other receivables	<u>1,086</u>	<u>5,059</u>	<u>7,206</u>

*Note:*

It represents prepaid lease payments for buildings held under operating leases for 15 to 20 years. It was recognised in profit or loss over the lease term and the portion to be recognised within 1 year is classified as current asset.

	As at 31 December		As at 31 May
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Carrying amount at 1 January	2,699	1,911	1,428
Recognised during the year/period	(657)	(286)	(127)
Exchange realignment	(131)	(197)	21
	<u>1,911</u>	<u>1,428</u>	<u>1,322</u>
Portion classified as non-current assets	(1,536)	(1,134)	(1,033)
Current portion included in prepayments, deposits and other receivables	<u>375</u>	<u>294</u>	<u>289</u>

**Company**

	As at 31 December 2016	As at 31 May 2017
	HK\$'000	HK\$'000
Prepayments	<u>660</u>	<u>2,820</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

**17. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS**

		As at 31 December		As at 31 May
		2015	2016	2017
	Note	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances		883	799	984
Time deposits		<u>5,803</u>	<u>9,000</u>	<u>9,000</u>
		6,686	9,799	9,984
Less:				
Pledged time deposits:				
Pledged for bank loans and overdrafts	21	<u>(5,003)</u>	<u>(9,000)</u>	<u>(9,000)</u>
Cash and cash equivalents		<u>1,683</u>	<u>799</u>	<u>984</u>

The cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$762,000, HK\$798,000 and HK\$352,000 as at 31 December 2015 and 2016 and 31 May 2017. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

**18. ASSETS CLASSIFIED AS HELD FOR SALE**

In June 2016, Guangzhou Xinhua entered into a sale and purchase agreement with Zihua to dispose of certain machines and equipment for a consideration of HK\$3,740,000. The disposal of the machines and equipment has not yet been completed as at 31 May 2017 and the assets were classified as held for sale.

Certain items of the Group's assets classified as held for sale with a net carrying amount of approximately HK\$3,298,000 as at 31 December 2016 were pledged to secure banking borrowings granted to the Group (note 21). The disposal of the assets was subsequently completed in June 2017.

**19. TRADE PAYABLES**

An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the transaction date, is as follows:

	As at 31 December		As at 31 May
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Within 1 month	2,343	2,622	2,750
1 to 2 months	1,816	2,063	1,619
2 to 3 months	901	938	1,233
Over 3 months	<u>1,911</u>	<u>2,915</u>	<u>4,909</u>
	<u>6,971</u>	<u>8,538</u>	<u>10,511</u>

The trade payables are unsecured, non-interest-bearing and are normally settled in 30 to 90 days, extending to longer periods for those long standing suppliers.

**20. OTHER PAYABLES AND ACCRUALS****Group**

	As at 31 December		As at 31 May
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Other payables and accruals	11,737	9,764	14,467
Advance from customers	<u>1,078</u>	<u>—</u>	<u>—</u>
	12,815	9,764	14,467
Portion classified as non-current	<u>(2,113)</u>	<u>(1,576)</u>	<u>(1,532)</u>
Current portion included in other payables and accruals	<u>10,702</u>	<u>8,188</u>	<u>12,935</u>

**Company**

	As at	As at 31 May
	31 December	2017
	2016	2017
	HK\$'000	HK\$'000
Other payables and accruals	<u>660</u>	<u>2,820</u>

The current portion of other payables and accruals are unsecured, interest-free and repayable on an average term of three months.

The non-current portion of other payables and accruals represents the differences between contractual minimum lease payments and accrued minimum lease payments on a straight-line basis for the Group's lease hold land over the lease term. The non-current portion of other payables and accruals are unsecured and interest-free and would be subsequently settled upon the gradual maturity of the lease agreement.

## 21. INTEREST-BEARING BANK BORROWINGS

	31 December 2015		
	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>			
Bank loans — secured	2.5 to 8.5	On demand	52,300
Bank overdrafts — secured	5.3 to 6.3	On demand	<u>5,992</u>
			<u><u>58,292</u></u>

	31 December 2016		
	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>			
Bank loans — secured	2.5 to 6.5	On demand	31,913
Bank overdrafts — secured	5.3 to 6.0	On demand	<u>5,017</u>
			<u><u>36,930</u></u>

	31 May 2017		
	Effective interest rate (%)	Maturity	HK\$'000
<b>Current</b>			
Bank loans - secured	3.3 to 6.0	On demand	31,961
Bank overdrafts — secured	6.0	On demand	<u>8,601</u>
			<u><u>40,562</u></u>

Analysed into:

	As at 31 December		As at 31 May
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Bank loans and overdrafts repayable on demand	<u>58,292</u>	<u>36,930</u>	<u>40,562</u>

Interest-bearing bank borrowings are denominated in:

	As at 31 December		As at 31 May
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
HK\$	38,067	26,567	29,442
RMB	5,968	1,230	—
United States Dollar ("US\$")	<u>14,257</u>	<u>9,133</u>	<u>11,120</u>
	<u><u>58,292</u></u>	<u><u>36,930</u></u>	<u><u>40,562</u></u>

*Notes:*

- (a) HK Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* issued by the HKICPA requires that a loan which includes a clause that gives the lender the unconditional right to call in the loan at any time (“repayment on demand clause”) shall be classified in total by the borrower as current in the statement of financial position. Interest-bearing bank loans and overdrafts of the Group in the amounts of HK\$58,292,000, HK\$36,930,000 and HK\$40,562,000 include a repayment on demand clause under the relevant loan agreements, among which balances of HK\$12,026,000, HK\$4,574,000 and HK\$3,787,000 that are repayable after one year from 31 December 2015 and 2016 and 31 May 2017 have been classified as current liabilities. For the purpose of the above analysis, such loans are included within current secured bank loans and analysed into bank loans repayable on demand.
- (b) The Group’s bank facilities (including overdraft facilities) amounted to HK\$59,313,000 and HK\$40,371,000 and HK\$41,063,000, of which HK\$58,292,000, HK\$36,930,000 and HK\$40,562,000 had been utilised as at 31 December 2015 and 2016 and 31 May 2017, respectively.
- (c) The following assets were pledged as security for interest-bearing bank borrowings:

	<i>Notes</i>	<b>Carrying amounts</b>		
		<b>As at 31 December 2015</b>	<b>2016</b>	<b>As at 31 May 2017</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	12	6,897	4,212	—
Available-for-sale investment	13	—	4,305	4,392
Trade receivables	15	4,985	6,405	7,105
Pledged deposits	17	5,003	9,000	9,000
Assets classified as held for sale	18	—	3,298	—
		<u>16,885</u>	<u>27,220</u>	<u>20,497</u>

- (d) Certain of the Group’s bank loans were guaranteed by Mr. Wong, a Director of the Company, and related companies of the Group, which are controlled by Mr. Wong (note 32(e)).
- (e) The Group’s bank loans of HK\$7,513,000, HK\$6,053,000 and HK\$6,794,000 were secured by the Government of the Hong Kong Special Administrative Region under the Special Loan Guarantee Scheme as at 31 December 2015 and 2016 and 31 May 2017, respectively.

## 22. GOVERNMENT GRANTS

	As at 31 December	
	2015	2016
	HK\$'000	HK\$'000
At 1 January	232	196
Amounts released to profit or loss ( <i>note 5</i> )	(25)	(191)
Exchange realignment	(11)	(5)
	<u>196</u>	<u>—</u>
At 31 December	<u>196</u>	<u>—</u>
Portion classified as current liabilities	(25)	—
Non-current portion	<u>171</u>	<u>—</u>

## 23. DERIVATIVE FINANCIAL INSTRUMENT

	Note	As at 31 December	
		2015	2016
		HK\$'000	HK\$'000
At 1 January		21	1,143
Settlements during the year		(57)	(894)
Fair value (gain)/loss released to profit or loss	6	<u>1,179</u>	<u>(249)</u>
		<u>1,143</u>	<u>—</u>
At 31 December		<u>1,143</u>	<u>—</u>

The Group has entered into a forward exchange rate contract to manage its exchange rate exposures. The forward exchange rate contract is not designated for hedge purposes and is measured at fair value through profit or loss. A loss of HK\$1,179,000 and a gain of HK\$249,000 on the change in the fair value were recognised in profit or loss for the years ended 31 December 2015 and 2016, respectively.

## 24. DEFERRED TAX

The movements in deferred tax assets during the Relevant Periods are as follows:

## Deferred tax assets

	Depreciation charge in excess of related depreciation allowance <i>HK\$'000</i>	Accrued salary and welfare expense <i>HK\$'000</i>	Tax loss available for offsetting against future taxable profits <i>HK\$'000</i>	Deferred rental expense <i>HK\$'000</i>	Government grants <i>HK\$'000</i>	Available for- sale investment revaluation <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2015	22	1,406	97	606	58	—	2,189
Deferred tax (charged)/credited to profit or loss during the year ( <i>note 10</i> )	24	(330)	(12)	23	(6)	—	(301)
Exchange differences	—	(6)	—	(36)	(3)	—	(45)
Gross deferred tax assets at 31 December 2015	<u>46</u>	<u>1,070</u>	<u>85</u>	<u>593</u>	<u>49</u>	<u>—</u>	<u>1,843</u>
Deferred tax (charged)/credited to profit or loss during the year ( <i>note 10</i> )	16	(193)	(85)	(79)	(48)	—	(389)
Deferred tax credited to other comprehensive income during the year	—	—	—	—	—	191	191
Disposal of a subsidiary ( <i>note 33</i> )	—	—	—	(58)	—	—	(58)
Exchange differences	—	—	—	(33)	(1)	—	(34)
Gross deferred tax assets at 31 December 2016	<u>62</u>	<u>877</u>	<u>—</u>	<u>423</u>	<u>—</u>	<u>191</u>	<u>1,553</u>
Deferred tax (charged)/credited to profit or loss during the period ( <i>note 10</i> )	2	(133)	—	(12)	—	—	(143)
Deferred tax charged to other comprehensive income during the period	—	—	—	—	—	(14)	(14)
Exchange differences	—	(76)	—	6	—	—	(70)
Gross deferred tax assets at 31 May 2017	<u>64</u>	<u>668</u>	<u>—</u>	<u>417</u>	<u>—</u>	<u>177</u>	<u>1,326</u>



**Deferred tax liabilities — withholding tax**

	As at 31 December		As at 31 May
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
At 1 January	30	87	135
Deferred tax charged to profit or loss during the year/period ( <i>note 10</i> )	176	48	46
Settlement during the year/period	<u>(119)</u>	<u>—</u>	<u>—</u>
Gross deferred tax liabilities at the end of each year/period	<u>87</u>	<u>135</u>	<u>181</u>

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable tax rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

The Group has recognised deferred tax liabilities in respect of temporary differences relating to all the unremitted earnings of its subsidiaries established in the PRC as at the end of each of the Relevant Periods.

**25. SHARE CAPITAL**

As at 31 December 2016 and 31 May 2017, the Company had authorised share capital of HK\$380,000 divided into 38,000,000 ordinary shares with a par value of HK\$0.01 each. As at 31 December 2016 and 31 May 2017, one ordinary share was issued and fully paid up.

**26. RESERVES**

The amounts of the Group's reserves and the movements therein for the Relevant Periods and the five months ended 31 May 2016 are presented in the combined statements of changes in equity.

**Statutory surplus reserve**

Pursuant to the relevant laws and regulations in the PRC, the companies registered in the PRC shall appropriate a certain percentage of their net profit after tax (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to the reserve fund. When the balance of this reserve fund reaches 50% of the entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after these usages. After making the appropriation to the statutory surplus reserve, the companies may also appropriate their profit for the year to the discretionary surplus reserve upon approval by the board of directors or the shareholders in a general meeting.

**Merger reserve**

The merger reserve of the Group represents the nominal value of the paid-up capital of the subsidiaries acquired by the Company pursuant to the Reorganisation set out in note 2.1 to the Historical Financial Information.

**27. DIVIDEND**

No dividends have been paid by the Company in respect of the Relevant Periods and the five months ended 31 May 2016.

**28. CONTINGENT LIABILITIES**

The Group had no significant contingent liabilities at the end of each of the Relevant Periods.

**29. PLEDGE OF ASSETS**

Details of the Group's bank loans and overdrafts, which are secured by the assets of the Group, are included in note 21 to the Historical Financial Information.

**30. OPERATING LEASE ARRANGEMENTS****As lessee**

The Group leases certain of its land and buildings, production machinery and office equipment under operating lease arrangements, with leases negotiated for terms ranging from one to twenty years.

At 31 December 2015 and 2016 and 31 May 2017, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

	As at 31 December		As at 31 May
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Within one year	3,003	1,866	1,909
In the second to fifth years, inclusive	11,235	6,303	6,272
After five years	<u>11,224</u>	<u>2,416</u>	<u>1,781</u>
	<u>25,462</u>	<u>10,585</u>	<u>9,962</u>

Pursuant to the terms and conditions as stipulated in the lease agreements of the Group's production machinery (steam generating machine), the rents are calculated based on the quantity of the steam consumed. The lease agreement was terminated in June 2016. Accordingly, the Group did not include the contingent rents in the above future minimum lease payables as the future consumption of the steam could not be accurately determined as at 31 December 2015.

**31. COMMITMENTS**

Except for the operating lease commitments detailed in note 30 above, the Group did not have any significant commitments at the end of each of the Relevant Periods.

**32. RELATED PARTY TRANSACTIONS**

In addition to the transactions detailed elsewhere in the Historical Financial Information, the Group had the following transactions with related parties during the Relevant Periods and the five months ended 31 May 2016:

- (a) Names of the Group's principal related parties and their relationship with the Group:

Name of related parties	Relationship
Mr. Wong	Director of the Company
Jinxin China Limited	Company controlled by Mr. Wong
Golden New Power Investment Limited	Company controlled by Mr. Wong
Genplas Industrial Company, Limited	Company controlled by Mr. Wong

- (b) Significant related party transactions during the Relevant Periods and the five months ended 31 May 2016 are as follows:

	Year ended 31 December		Five months ended 31 May	
	2015	2016	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Management fee	<u>1,050</u>	<u>423</u>	<u>423</u>	<u>—</u>

*Note:* The management fee was charged by Jinxin China Limited (“Jinxin”), a related company controlled by Mr. Wong, in respect of its market development and customer management services provided to the Group. The rate of the management fee was determined primarily taking into consideration the labour costs incurred in the delivery of the relevant services. The management services were terminated in June 2016.

- (c) The outstanding balance with a related party is as follows:

	2015		2016		2017	
	Maximum amount outstanding	Maximum amount outstanding	Maximum amount outstanding	Maximum amount outstanding	Maximum amount outstanding	Maximum amount outstanding
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Jinxin	<u>96,982</u>	<u>96,982</u>	<u>63,087</u>	<u>96,982</u>	<u>70,180</u>	<u>70,180</u>

The above balance is unsecured, interest-free, non-trade in nature and repayable on demand and has been subsequently settled in November 2017.

- (d) Compensation of key management personnel of the Group:

Details of the compensation of key management personnel of the Group, who are the directors, are disclosed in note 8 to the Historical Financial Information.

- (e) Provision of guarantees by related parties:

	As at 31 December		As at 31 May
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Bank loans guaranteed by:			
Mr. Wong	22,460	36,930	40,562
Golden New Power Investment Limited	28,226	—	—
Mr. Wong and Genplas Industrial Company, Limited	<u>7,606</u>	<u>—</u>	<u>—</u>
	<u>58,292</u>	<u>36,930</u>	<u>40,562</u>

The above guarantees provided by the related parties would be subsequently released upon listing.

**33. DISPOSAL OF A SUBSIDIARY**

In June 2016, the Group disposed of all of its interests in Zhihua to an independent third party, for a cash consideration of RMB500,000 (equivalent to HK\$584,000).

	<i>Notes</i>	<b>31 December 2016</b> <i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	<i>12</i>	2,836
Deferred tax assets	<i>24</i>	58
Prepayments, deposits and other receivables		1,269
Cash and cash equivalents		18
Other payables and accruals		(413)
Tax payable		(34)
Amount due to Jinxin		(7)
Amount due to Guangzhou Xinhua		<u>(3,349)</u>
		378
Exchange fluctuation reserve		(11)
Gain on disposal of a subsidiary	<i>5, 6</i>	<u><u>217</u></u>
Satisfied by:		
Cash		<u><u>584</u></u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	<b>31 December 2016</b> <i>HK\$'000</i>
Cash consideration	584
Cash and cash equivalents disposed of	<u>(18)</u>
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	<u><u>566</u></u>

**34. FINANCIAL INSTRUMENTS BY CATEGORY**

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

**31 December 2015***Financial assets*

	<b>Loans and receivables</b> <i>HK\$'000</i>
Trade receivables	15,861
Financial assets included in prepayments, deposits and other receivables	1,706
Due from a related company	96,982
Pledged deposits	5,003
Cash and cash equivalents	<u>1,683</u>
	<u><u>121,235</u></u>

*Financial liabilities*

	<b>Financial liabilities at fair value</b> <i>HK\$'000</i>	<b>Financial liabilities at amortised cost</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Trade payables	—	6,971	6,971
Financial liabilities included in other payables and accruals	—	1,042	1,042
Derivative financial instrument	1,143	—	1,143
Interest-bearing bank borrowings	—	58,292	58,292
	<u>1,143</u>	<u>66,305</u>	<u>67,448</u>

**31 December 2016***Financial assets*

	<b>Loans and receivables</b> <i>HK\$'000</i>	<b>Available-for- sale investment</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Available-for-sale investment	—	4,305	4,305
Trade receivables	13,888	—	13,888
Financial assets included in prepayments, deposits and other receivables	3,623	—	3,623
Due from a related company	63,087	—	63,087
Pledged deposits	9,000	—	9,000
Cash and cash equivalents	799	—	799
	<u>90,397</u>	<u>4,305</u>	<u>94,702</u>

*Financial liabilities*

	<b>Financial liabilities at amortised cost</b> <i>HK\$'000</i>
Trade payables	8,538
Financial liabilities included in other payables and accruals	1,898
Interest-bearing bank borrowings	36,930
	<u>47,366</u>

31 May 2017

*Financial assets*

	Loans and receivables <i>HK\$'000</i>	Available-for- sale investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Available-for-sale investment	—	4,392	4,392
Trade receivables	15,026	—	15,026
Financial assets included in prepayments, deposits and other receivables	3,888	—	3,888
Due from a related company	70,180	—	70,180
Pledged deposits	9,000	—	9,000
Cash and cash equivalents	984	—	984
	<u>99,078</u>	<u>4,392</u>	<u>103,470</u>

*Financial liabilities*

	Financial liabilities at amortised cost <i>HK\$'000</i>
Trade payables	10,511
Financial liabilities included in other payables and accruals	7,170
Interest-bearing bank borrowings	<u>40,562</u>
	<u>58,243</u>

**35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS**

As at 31 December 2015 and 2016 and 31 May 2017, the fair values of the Group's financial assets or financial liabilities approximated to their respective carrying amounts.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, an amount due from a related company, interest-bearing bank borrowings and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The Directors review the results of the fair value measurement of financial instruments periodically for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair value of the Group's available-for-sale investment was categorised within Level 3 of the fair value hierarchy which is measured based on significant unobservable inputs and has been estimated based on the surrender value of the policy as disclosed in note 13 to the Historical Financial Information. The Directors believe that the estimated fair value and the related changes in fair values are reasonable, and that they were the most appropriate values at the end of each of the Relevant Periods.

The movements in fair value measurements within Level 3 during the Relevant Periods are as follows:

	31 December		31 May
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Available-for-sale investments — unlisted:			
At 1 January	—	—	4,305
Purchases	—	5,462	—
Total fair value changes recognised in other comprehensive income	—	(1,157)	87
At 31 December/31 May	—	4,305	4,392

The Group enters into a forward exchange rate contract with a bank, which was measured using valuation techniques similar to forward pricing models, using present value calculations. The models incorporate various observable inputs including the foreign exchange spot and forward rates. The fair value of the Group's derivative financial instrument was categorised within Level 2 of the fair value hierarchy which is measured based on significant observable inputs and the carrying amount of the forward exchange rate contract is the same as its fair value as disclosed in note 23 to the Historical Financial Information.

There were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 during the Relevant Periods and the five months ended 31 May 2016.

### 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, an amount due from a related company and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

#### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate of 100 basis points, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on floating rate borrowings).

	Increase/(decrease) in the Group's profit before tax/ (Increase)/decrease in the Group's loss before tax		Year ended 31 May	
	Year ended 31 December 2015	Year ended 31 December 2016	Five months ended 31 May 2016	Five months ended 31 May 2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Unaudited)	
If interest rates decrease by 100 basis points	523	357	547	406
If interest rates increase by 100 basis points	(523)	(357)	(547)	(406)

**Foreign currency risk**

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies

The following table demonstrates the sensitivity to a reasonably possible change by 5% in the HK\$ exchange rate against RMB and US\$ exchange rate against RMB, with all other variables held constant, of the Group's profit/(loss) before tax due to changes in the translated values of monetary assets and liabilities.

	<b>Increase/(decrease) in the Group's profit before tax/ (Increase)/decrease in the Group's loss before tax</b>			
	<b>Year ended 31 December</b>		<b>Five months ended 31 May</b>	
	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Unaudited)	
If HK\$ strengthens against RMB	(1,736)	(1,763)	(1,570)	(2,023)
If HK\$ weakens against RMB	1,736	1,763	1,570	2,023
If US\$ strengthens against RMB	(1,574)	—	—	—
If US\$ weakens against RMB	968	—	—	—

**Credit risk**

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, an amount due from a related company and deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets.

As at 31 December 2015 and 2016 and 31 May 2017, the Group had certain concentrations of credit risk as 24%, 25% and 34% of the trade receivables, respectively, were due from the Group's largest customer. In order to minimise the credit risk, the financial department has been delegated by the management of the Group to be responsible for the determination of credit limits, credit approvals and other monitoring procedures and the review of the recoverable amount of each material individual debt at the end of each reporting period to ensure that adequate provision for impairment losses is made for irrecoverable amounts. In addition, the Group continuously monitors its trade receivable balances so as to ensure that the Group will not be subject to material bad debt risk. Since the Group only trades with third parties recognised to be creditworthy, management considers that the credit risk in respect of the Group's customers is limited. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 15 to the Historical Financial Information.



**Liquidity risk**

The Group's policies are to regularly monitor the current and expected liquidity requirements, and to ensure that it maintains sufficient reserves of cash and available banking facilities to meet its liquidity requirements in short and longer term.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	<b>31 December 2015</b>		
	<b>On demand</b>	<b>Within 1 year</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest-bearing bank borrowings	58,292	—	58,292
Trade payables	—	6,971	6,971
Other payables and accruals	30	1,012	1,042
Derivative financial instrument	—	1,143	1,143
	<u>58,322</u>	<u>9,126</u>	<u>67,448</u>
	<u><u>58,322</u></u>	<u><u>9,126</u></u>	<u><u>67,448</u></u>
	<b>31 December 2016</b>		
	<b>On demand</b>	<b>Within 1 year</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest-bearing bank borrowings	36,930	—	36,930
Trade payables	—	8,538	8,538
Other payables and accruals	160	1,738	1,898
	<u>37,090</u>	<u>10,276</u>	<u>47,366</u>
	<u><u>37,090</u></u>	<u><u>10,276</u></u>	<u><u>47,366</u></u>
	<b>31 May 2017</b>		
	<b>On demand</b>	<b>Within 1 year</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest-bearing bank borrowings	40,562	—	40,562
Trade payables	—	10,511	10,511
Other payables and accruals	136	7,044	7,180
	<u>40,698</u>	<u>17,555</u>	<u>58,253</u>
	<u><u>40,698</u></u>	<u><u>17,555</u></u>	<u><u>58,253</u></u>

*Note:* Interest-bearing bank borrowings in the amounts of HK\$58,292,000, HK\$36,930,000 and HK\$40,562,000 include a repayment on demand clause in the loan agreements giving the banks the unconditional right to call in the loans at any time and therefore, for the purpose of the above maturity profile, the amounts are classified as "on demand".

Notwithstanding the above clause, the directors do not believe that the loans will be called in their entirety within 12 months, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the end of each Relevant Periods, the Group's compliance with the loan covenants, the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of the loans, the contractual undiscounted payments as at 31 December 2015 and 2016 and 31 May 2017 were as follows:

	<b>Within 1 year</b> <i>HK\$'000</i>	<b>1 to 2 years</b> <i>HK\$'000</i>	<b>Over 2 years</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
31 December 2015	47,482	2,997	11,006	61,485
31 December 2016	33,048	2,206	2,628	37,882
31 May 2017	<u>36,842</u>	<u>1,531</u>	<u>2,460</u>	<u>40,833</u>

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods and the five months ended 31 May 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity plus net debt. Net debt includes interest-bearing bank borrowings, trade payables and other payables and accruals, less cash and cash equivalents.

The gearing ratios as at the end of each of the Relevant Periods were as follows:

	<b>As at 31 December</b> <b>2015</b> <i>HK\$'000</i>	<b>2016</b> <i>HK\$'000</i>	<b>As at 31 May</b> <b>2017</b> <i>HK\$'000</i>
Interest-bearing bank borrowings	58,292	36,930	40,562
Trade payables	6,971	8,538	10,511
Other payables and accruals	12,815	9,764	14,467
Less: Cash and cash equivalents	<u>(1,683)</u>	<u>(799)</u>	<u>(984)</u>
Net debt	<u>76,395</u>	<u>54,433</u>	<u>64,556</u>
Total equity	<u>67,411</u>	<u>61,385</u>	<u>60,169</u>
Net debt and total equity	<u>143,806</u>	<u>115,818</u>	<u>124,725</u>
Gearing ratio	<u>53%</u>	<u>47%</u>	<u>52%</u>

## 37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Reconciliation of liabilities arising from financing activities during the Relevant Periods and the five months ended 31 May 2016 is as follows:

	As at 31 December 2014 <i>HK\$'000</i>	Cash flows <i>HK\$'000</i>	Non-cash changes Foreign exchange movement <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>
Bank loans	40,706	11,964	(370)	52,300
	As at 31 December 2015 <i>HK\$'000</i>	Cash flows <i>HK\$'000</i>	Non-cash changes Foreign exchange movement <i>HK\$'000</i>	As at 31 December 2016 <i>HK\$'000</i>
Bank loans	52,300	(20,207)	(180)	31,913
	As at 31 December 2016 <i>HK\$'000</i>	Cash flows <i>HK\$'000</i>	Non-cash changes Foreign exchange movement <i>HK\$'000</i>	As at 31 May 2017 <i>HK\$'000</i>
Bank loans	31,913	37	11	31,961
	As at 31 December 2015 <i>HK\$'000</i>	Cash flows <i>HK\$'000</i> Unaudited	Non-cash changes Foreign exchange movement <i>HK\$'000</i> Unaudited	As at 31 May 2016 <i>HK\$'000</i> Unaudited
Bank loans	52,300	(3,603)	(28)	48,669

**38. EVENTS AFTER THE RELEVANT PERIODS****Acquisition of 20% of the issued shares of Newchamp Industries Limited**

On 22 June 2017, Tseyu acquired 20% of the issued shares of Newchamp from Jinxin at a consideration of approximately HK\$13 million, which was determined with reference to the net asset value of Newchamp as at 31 May 2017 and satisfied by offsetting the amounts due from Jinxin. Upon completion of the acquisition, Newchamp was directly wholly owned by Tseyu.

**Acquisition of Tseyu International Trading Company Limited**

On 22 June 2017, Strat Tech Holdings Limited acquired the entire issued shares of Tseyu from Jinxin at a consideration of approximately HK\$28 million, which was determined with reference to the net asset value of Tseyu as at 31 May 2017 and satisfied by offsetting the amounts due from Jinxin. Upon completion of the acquisition, Tseyu was directly wholly owned by Strat Tech Holdings Limited.

**39. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 May 2017.

<b>APPENDIX II</b>	<b>UNAUDITED PRO FORMA FINANCIAL INFORMATION</b>
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The information set out in this appendix does not form part of the accountants' report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

**A. UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS**

The following statement of the unaudited pro forma adjusted combined net tangible assets of the Group, has been prepared, on the basis of the notes set out below, to illustrate the effect of the Listing on the combined net tangible assets of the Group attributable to owners of the Company as at 31 May 2017 as if the Listing had taken place on that date. The unaudited pro forma adjusted combined net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to owners of the Company had the Listing been completed as at 31 May 2017 or at any future dates. It is prepared based on the audited combined total tangible assets of the Group attributable to owners of the Company as at 31 May 2017 as set out in the Accountants' Report in Appendix I to this Prospectus, and adjusted as described below.

	Audited combined net tangible assets of the Group attributable to owners of the Company as at 31 May 2017 (HK\$'000) (Note 1)	Estimated net proceeds from the Share Offer (HK\$'000) (Note 2)	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company (HK\$'000)	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per share HK\$
Based on a Offer Price of HK\$0.25 per Share	60,169	34,997	95,166	0.119
Based on a Offer Price of HK\$0.375 per Share	60,169	59,122	119,291	0.149

(1) The audited combined net tangible assets of the Group attributable to the owners of the Company is based on the combined total net assets attributable to the owner of the Company as of 31 May 2017 as set out in Appendix I to this prospectus.

- (2) The estimated net proceeds from the Share Offer are based on 200,000,000 Offer Shares at the indicative Offer Price of HK\$0.25 and HK\$0.375, being the low-end and high-end of the stated offer price range, per Share, after deduction of the underwriting fees and other related expenses to be incurred by the Company (excluding listing expenses of approximately HK\$10.9 million which have been accounted for prior to 31 May 2017. It does not take into account of any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option, the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares referred to in the section headed “General Mandate to Allot and Issue New Shares” or the section headed “General Mandate to Repurchase Shares”.
- (3) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to the owners of the Company per Share is calculated based on 800,000,000 Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue. It does not take into account of any Shares which may be allotted and issued pursuant to the exercise of Offer Size Adjustment Option, the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares referred to in the section headed “General Mandate to Allot and Issue New Shares” or the section headed “General Mandate to Repurchase Shares”.
- (4) No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 May 2017 to reflect any trading result or other transactions of the Group entered into subsequent to 31 May 2017.

**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE  
COMPILATION OF PRO FORMA FINANCIAL INFORMATION**



22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

To the Directors of **Shen You Holdings Limited**

We have completed our assurance engagement to report on the compilation of pro forma financial information of **Shen You Holdings Limited** (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma combined net tangible assets as at 31 May 2017 and related notes as set out on pages II-1 to II-2 of the prospectus dated 30 November 2017 issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Section (A) of Appendix II to the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of public offer and placing of shares of the Company on the Group’s financial position as at 31 May 2017. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the period ended 31 May 2017 on which an accountants’ report has been published.

**Directors’ responsibility for the Pro Forma Financial Information**

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and with reference to Accounting Guideline (“AG”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

**Our independence and quality control**

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting accountants' responsibilities**

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of public offer and placing of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**Opinion**

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,

*Certified Public Accountants*

Hong Kong

30 November 2017

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 18 August 2016 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (Memorandum) and its Amended and Restated Articles of Association (Articles).

## 1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

## 2. ARTICLES OF ASSOCIATION

The Articles were adopted on 24 November 2017. A summary of certain provisions of the Articles is set out below.

### (a) Shares

#### (i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

#### (ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorized representative) or representing by

proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

*(iii) Alteration of capital*

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

*(iv) Transfer of shares*

Subject to the Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

*(v) Power of the Company to purchase its own shares*

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

*(vi) Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

*(vii) Calls on shares and forfeiture of shares*

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board

shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

**(b) Directors**

*(i) Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (aa) resign;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) he is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or

(hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

*(ii) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other

special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(iii) Power to dispose of the assets of the Company or any of its subsidiaries*

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

*(iv) Borrowing powers*

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*(v) Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.



The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vi) Compensation or payments for loss of office*

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

*(vii) Loans and provision of security for loans to Directors*

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

*(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or

owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its

subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

*(ix) Proceedings of the Board*

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

**(c) Alterations to the constitutional documents and the Company's name**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

**(d) Meetings of member**

*(i) Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

*(ii) Voting rights and right to demand a poll*

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

*(iii) Annual general meetings*

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

*(iv) Notices of meetings and business to be conducted*

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

*(v) Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

*(vi) Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

**(e) Accounts and audit**

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

**(f) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.



The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

**(g) Inspection of corporate records**

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

**(h) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

**(i) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

**(j) Subscription rights reserve**

Provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company was incorporated in the Cayman Islands as an exempted company on 18 August 2016 subject to the Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**(a) Company operations**

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

Under Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

**(c) Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

Subject to a solvency test, as prescribed in the Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

**(g) Disposal of assets**

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

**(h) Accounting and auditing requirements**

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
  - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
  - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of 20 years from 7 September 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

**(m) Inspection of corporate records**

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

**(n) Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

**(o) Register of Directors and officers**

Pursuant to the Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

**(p) Winding up**

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

**(q) Reconstructions**

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

**(r) Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

**(s) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

**4. GENERAL**

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection — Documents Available for Inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.



**A. FURTHER INFORMATION ABOUT OUR GROUP****1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 18 August 2016 and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 5 December 2016. We have established a place of business in Hong Kong at Room 1006–7, 10/F., Kowloon Centre, No. 33 Ashley Road, Tsim Sha Tsui, Kowloon, Hong Kong. Mr. Wong and Mr. Chan Yiu Tung, Enoch have been appointed as the authorised representatives of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Cayman Companies Law and its constitution comprising the Memorandum of Association and the Articles of Association. A summary of certain provisions of its constitution and relevant aspects of the Cayman Companies Law is set out in Appendix III to this prospectus.

**2. Change in share capital**

Our authorised share capital as at the date of our incorporation was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. On 18 August 2016, one fully-paid subscriber Share was allotted and issued at par to Reid Services Limited, the initial subscriber, at par, who then transferred such Share to Three Gates Investment on the same day. On 24 November 2017, our Company increased its authorised share capital from HK\$380,000 divided into 38,000,000 Shares to HK\$50,000,000 divided into 5,000,000,000 Shares with a par value of HK\$0.01 each by the creation of an additional 4,962,000,000 Shares.

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under Share Option Scheme), the issued share capital of our Company will be HK\$8,000,000 divided into 800,000,000 Shares, all fully paid or credited as fully paid and 4,200,000,000 Shares will remain unissued.

Save for the aforesaid and as mentioned in the paragraph headed “3. Resolutions in writing of our sole Shareholder passed on 24 November 2017” below in this section there has been no alteration in the share capital of our Company since its incorporation.

**3. Resolutions in writing of our sole Shareholder passed on 24 November 2017**

Pursuant to the written resolutions passed by our sole Shareholder on 24 November 2017:

- (a) we approved and conditionally adopted the Articles of Association which will become effective upon the Listing Date;
- (b) the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$50,000,000 divided into 5,000,000,000 Shares by the creation of an additional 4,962,000,000 Shares;

- (c) we approved and adopted the Memorandum of Association with immediate effect;
- (d) conditional on (i) the Listing Division of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue, Shares to be issued pursuant to the Capitalisation Issue and the Shares to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under Share Option Scheme); (ii) the entering into of the Price Determination Agreement among our Company and the Sole Bookrunner (for and on behalf of the Underwriters) on the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
  - (i) the Share Offer was approved and our Directors were authorised to allot and issue the new Shares pursuant to the Share Offer;
  - (ii) the Offer Size Adjustment Option was approved;
  - (iii) the rules of the Share Option Scheme, the principal terms of which are set out in the sub-paragraph headed “D. Other information — 1. Share Option Scheme” below in this Appendix, were approved and adopted and our Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme and to take all actions as they consider necessary or desirable to implement the Share Option Scheme; and
  - (iv) conditional on the share premium account of our Company being credited as a result of the issue of the Offer Shares by our Company pursuant to the Share Offer, our Directors were authorised to capitalise an amount of HK\$5,999,999.99 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 599,999,999 Shares, such Shares to be allotted and issued to the persons whose names appear on the register of members of the Company on the date immediately before the date of the Listing in accordance with their respective shareholding in our Company;
- (e) a general unconditional mandate was given to our Directors to allot, issue and deal with Shares and to make or grant an offer, agreement, or options (including warrants, bonds, debentures and other securities which carry rights to subscribe for or are convertible into Shares), which would or might require the exercise of such power, provided that the aggregate number of Shares allotted or agreed conditionally or unconditionally to be allotted by the Directors, otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or pursuant to the exercise of options under the Share Option Scheme or pursuant to a specific authority granted by our Shareholders in general meeting, shall not exceed 20% of the number of Shares in issue immediately following completion of the Share Offer and Capitalisation Issue (without taking into account of any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option or options which may be granted under

the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws to be held, or until revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever occurs first;

- (f) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares will represent up to 10% of the number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws to be held, or until revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever occurs first; and
- (g) the general unconditional mandate mentioned in paragraph (e) above was extended by the addition to the total number of Shares which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the total number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (f) above, provided that such number of Shares shall not exceed 10% of the total number of Shares in issue immediately following the completion of the Share Offer and Capitalisation Issue (without taking into account of any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme).

#### **4. Corporate reorganisation**

The companies comprising our Group underwent the Reorganisation in preparation for the listing of our Shares on the Stock Exchange. For information relating to the Reorganisation, please refer to the section headed “History, Reorganisation and Corporate Structure” in this prospectus.

#### **5. Changes in share capital of subsidiaries**

Our subsidiaries are referred to in the Accountants’ Report in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountants’ Report and in the section headed “History, Reorganisation and Corporate Structure”, our Company has no other subsidiaries.

Save as for the changes as disclosed in the section headed “History, Reorganisation and Corporate Structure”, there has been no alteration in the share capital of our subsidiaries within two years immediately preceding the date of this prospectus.

## 6. Repurchases of our Shares

### *(a) Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies whose primary listing is on the GEM Board of Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

#### (i) Shareholders' approval

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of its Shareholders, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to resolution passed by our sole Shareholder on 24 November 2017, a general unconditional mandate (the "**Buy-back Mandate**") was granted to our Directors authorising the repurchase of Shares by our Company on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with the total number of Shares not exceeding 10% of the total number of Shares in issue as mentioned herein, at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by an applicable law or the Articles of Association to be held or when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

#### (ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange in effect from time to time.

### *(b) Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and our members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and its assets and/or its earnings per Share.

### *(c) Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands.

It is presently proposed that any repurchase of Shares will be made out of the profits of our Company, the share premium amount of our Company or the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the purchase, out of either or both of the profits of our Company or the share premium account of our Company or, subject to the Cayman Companies Law, out of capital.

Our Directors do not propose to exercise the Buy-back Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

*(d) Share capital*

Exercise in full of the Buy-back Mandate, on the basis of 800,000,000 Shares in issue immediately after the listing of the Shares (but not taking into account the Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme), could accordingly result in up to 80,000,000 Shares being repurchased by our Company during the period until:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Articles of Association to be held; or
- (iii) the date on which the Buy-back Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever occurs first.

*(e) General*

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective close associates (as defined in the GEM Listing Rules), has any present intention to sell any Shares to us or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buy-back Mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands.

No core connected person (as defined in the GEM Listing Rules) of our Company has notified us that he/she/it has a present intention to sell Shares to us, or has undertaken not to do so, if the Buy-back Mandate is exercised.

If as a result of a securities repurchase pursuant to the Buy-back Mandate, a shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder, or a group of Shareholders acting in concert, depending on the level of increase of the shareholder's interest, could obtain or consolidate control of our Company and become obliged to make a mandatory

offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as aforesaid, our Directors are not aware of any other consequences which may arise under the Takeovers Code if the Buy-back Mandate is exercised.

If the Buy-back Mandate is fully exercised immediately following completion of the Share Offer and the Capitalisation Issue (but not taking into account the Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme), the total number of Shares which will be repurchased pursuant to the Buy-back Mandate shall be 80,000,000 Shares (being 10% of the total number of Shares in issue based on the aforesaid assumptions). Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the GEM Listing Rules requirements regarding the public float under Rule 11.23 of the GEM Listing Rules. However, our Directors have no present intention to exercise the Buy-back Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the GEM Listing Rules.

## **B. INFORMATION ABOUT OUR BUSINESS**

### **1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by us or any of our subsidiaries within the two years preceding the date of this prospectus and are or may be material:






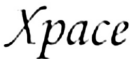

- (a) an equity transfer agreement dated 20 June 2016 entered into between Guangzhou Xinhua as vendor and Zhou Yiyang (周一陽) as purchaser in relation to the transfer of the entire equity interest in Foshan Zhihua at a consideration of RMB0.5 million;
- (b) the Deed of Indemnity;
- (c) the Deed of Non-competition;
- (d) the Public Offer Underwriting Agreement;
- (e) a deed of assignment of receivables dated 31 May 2017 entered into among Guangzhou Xinhua, Cheerful Keen, Newchamp Industries, Strat Tech and Jinxin China pursuant to which Jinxin China has assigned the loans of (i) HK\$2.9 million in Newchamp Industries; (ii) HK\$14.1 million in Cheerful Keen; and (iii) HK\$11.0 million in Guangzhou Xinhua, together to Strat Tech;
- (f) a deed of settlement dated 22 June 2017 entered into among Strat Tech, Jinxin China and Tseyu International, under which Strat Tech and Jinxin China settle and set off the indebtedness of HK\$28.0 million Jinxin China owed to Strat Tech against the consideration of HK\$28 million for Strat Tech to acquire the entire issued shares of Tseyu International; and

- (g) a deed of settlement dated 22 June 2017 entered into among Jinxin China, Tseyu International and Newchamp Industries pursuant to which, out of the indebtedness Jinxin China owed to Tseyu International, a sum of HK\$13 million was used for the settlement and set-off the consideration of HK\$13.0 million for Tseyu International to acquire the 20% of the issued shares of Newchamp Industries.

## 2. Intellectual property rights of our Group

### (a) Trademarks

As at the Latest Practicable Date, our Group was the registered proprietor of the following trademarks which, in opinion of our Directors, are material to our business:

Trademark	Registration Number	Class	Name of Registered Proprietor	Place of Registration	Date of Registration	Expiry Date
	200009850	23	Tseyu International	Hong Kong	9 July 1999	9 July 2026
	19822357	23	Tseyu International	Hong Kong	12 May 1982	12 May 2023
	199301380	23	Tseyu International	Hong Kong	6 November 1991	6 November 2022
	199904799	23	Tseyu International	Hong Kong	25 June 1998	25 June 2025
	1373281	23	Guangzhou Xinhua	PRC	14 March 2000	13 March 2020
	15756348	23	Guangzhou Xinhua	PRC	21 January 2016	20 January 2026
	1936159	23	Guangzhou Xinhua	PRC	21 September 2002	20 September 2022

### (b) Domain names

As at the Latest Practicable Date, our Group was the registered proprietor of the following domain names which, in opinion of our Directors, are material to our business:

Domain name	Name of Registered Proprietor	Date of Registration	Expiry Date
xinhua.gd.cn	Guangzhou Xinhua	14 April 2005	14 April 2020
shenyouholdings.com	Tseyu International	22 June 2017	21 June 2018

**C. FURTHER INFORMATION ABOUT DIRECTORS, CHIEF EXECUTIVE AND SUBSTANTIAL SHAREHOLDERS**

**1. Directors**

*(a) Disclosure of Interests — interests and short positions of the Directors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations*

Immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme), the interests or short positions of our Directors or chief executive of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by directors to be notified to our Company and the Stock Exchange, once the Shares are listed will be as follows:

*(i) Interests in our Company*

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number of Shares <sup>(Note 1)</sup></b>	<b>Percentage of shareholding</b>
Mr. Wong	Interest of a controlled corporation <i>(Note 2)</i>	600,000,000 (L)	75%

*Notes:*

- (1) The letter “L” denotes the person’s long position in the Shares.
- (2) Three Gates Investment is beneficially and wholly owned by Mr. Wong. By virtue of the SFO, Mr. Wong is deemed to be interested in our Shares held by Three Gates Investment.

*(ii) Interest in associated corporation of our Company*

<b>Name of Director</b>	<b>Name of associated corporation</b>	<b>Capacity</b>	<b>Number of share <sup>(Note 1)</sup></b>	<b>Percentage of shareholding</b>
Mr. Wong	Three Gates Investment	Beneficial Owner	1 (L)	100%

*Note:*

- (1) The letter “L” denotes the person’s long position in the share.



Save as disclosed above, none of our Directors or chief executive of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors once the Shares are listed.

***(b) Particulars of service contracts and letters of appointment***

Each of our executive Directors and non-executive Director have entered into a service contract with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than one months' notice in writing served by either party on the other.

Each of our independent non-executive Directors has entered into a letter of appointment with our Company for a term of three years commencing from the Listing Date, which may terminated by not less than one month's notice in writing served by either party on the other.

***(c) Directors' remuneration***

Each of our executive Directors is entitled to a director's fee and shall be paid a remuneration on the basis of a twelve-month year. During the year ended 31 December 2016, the aggregate remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to our Directors was approximately HK\$0.6 million. For details, please refer to note 9 of the Accountants' Report set out in Appendix I to this prospectus.

Our independent non-executive Directors have been appointed for a term of three years. We intend to pay a director's fee of HK\$120,000 per annum to each of Mr. To King Yan, Adam, Dr. Yeung Ngai Man, John and Mr. Sung Alfred Lee Ming, our independent non-executive Directors, respectively.

Under the arrangement currently in force, the aggregate remuneration (including salaries, contributions to pension scheme, housing allowances and other allowances and benefit in kind) of our Directors for the year ending 31 December 2016 is estimated to be no more than HK\$2 million.

## 2. Substantial Shareholders

So far as our Directors or our chief executive are aware as at the Latest Practicable Date, immediately following the completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme), the following persons (other than our Directors and chief executive of our Company) will have interests or short positions in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of issued voting shares of any other member of our Group:

Name of shareholders	Nature of interest	Interests in Shares <sup>(Note 1)</sup>	Percentage of shareholding immediately following the completion of the Share Offer and the Capitalisation Issue
Three Gates Investment (Note 2)	Beneficial owner	600,000,000 (L)	75%

Notes:

1. The letter “L” denotes the person’s long position in the Shares.
2. Three Gates Investment is beneficially and is wholly owned by Mr. Wong. By virtue of the SFO, Mr. Wong is deemed to be interested in our Shares held by Three Gates Investment.

## 3. Agency fees or commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted in connection with the issue or sale of any capital of any member of our Group within 24 months preceding the date of this prospectus.

## 4. Disclaimers

Save as disclosed herein:

- (a) none of our Directors or experts referred to under the paragraph headed “D. Other Information — 8. Qualification of Experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (b) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;

- (c) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (d) taking no account of Shares which may be taken up under the Share Offer, none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Share Offer, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or who is, directly or indirectly, interested in 10% or more of the issued voting shares of any member of our Group;
- (e) none of the experts referred to under the heading “D. Other information — 9. Consents of experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (f) so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the GEM Listing Rules) or Shareholders who are interested in more than 5% of the number of issued Shares has any interests in the five largest customers or the five largest suppliers of our Group.

## D. OTHER INFORMATION

### 1. Share Option Scheme

#### (a) Definitions

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

“Adoption Date”	24 November 2017, the date on which the Share Option Scheme is conditionally adopted by all Shareholders by way of written resolution
“Board”	the board of Directors or a duly authorised committee of the board of Directors
“Grantee”	any Participant who accepts an Offer in accordance with the terms of the Share Option Scheme
“Group”	our Company and any entity in which our Company, directly or indirectly, holds any equity interest
“Offer”	an offer of the grant of Options made in accordance with the terms of the Share Option Scheme
“Offer Date”	the date of Offer

“Option(s)”	option(s) to subscribe for Shares granted and accepted pursuant to the Share Option Scheme
“Option Period”	the period for the exercise of an Option to be notified by the Board to the Grantee, but in any event shall not exceed ten years from the Offer Date
“Participant”	any person who satisfies the eligibility requirements set out in paragraph (b)(2) below
“Subscription Price”	the price per Share at which a Grantee may subscribe for Shares on the exercise of an Option

**(b) Summary of terms of the Share Option Scheme**

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by our sole Shareholder on 24 November 2017:

*(1) Purpose of the Share Option Scheme*

The purpose of the Share Option Scheme is to attract and retain the best available personnel of our Group, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisors, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group. The Share Option Scheme will give the Participants an opportunity to have a personal stake in our Company and will help to motivate the Participants in optimising their performance and efficiency and attract and retain the Participants whose contributions are important to the long-term growth and profitability of our Group.

*(2) Who may join*

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or advisor of our Group, or any substantial shareholder of our Company, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Company, Options to subscribe at a price calculated in accordance with paragraph (3) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any Option shall be determined by the Board (or as the case may be, our independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

(3) *Price of Shares and grant of Options and consideration for the Options*

- (i) The Subscription Price shall be determined solely by the Board and notified to a Participant and shall be at least the higher of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date, which must be a Business Day; (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the Offer Date; and (c) the nominal value of a Share on the Offer Date.
- (ii) A nominal consideration of HK\$1.00 is payable on acceptance of the grant of Options.

(4) *Maximum number of Shares*

- (i) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in the limit being exceeded. Therefore, it is expected that our Company may grant options in respect of up to 240,000,000 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 240,000,000 Shares from time to time) to the participants under the Share Option Scheme.
- (ii) Subject to sub-paragraphs (iii) and (iv) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all the Shares in issue upon the Listing Date (assuming the Offer Size Adjustment Option is not exercised at all).
- (iii) The 10% limit as mentioned under above sub-paragraph (ii) may be refreshed at any time by approval of our Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme and other share option schemes of our Company) will not be counted for the purpose of calculating the limit as "refreshed". A circular must be sent to our Shareholders containing the information as required under the GEM Listing Rules in this regard.

- (iv) Subject to the above sub-paragraph (i), our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the 10% limit under sub-paragraphs (ii) and (iii) provided the Options in excess of the limit are granted only to Participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a generic description of the specified persons who may be granted such Options, the number and terms of such Options to be granted and the purpose of granting such Options to the specified persons with an explanation of how the terms of the Options will serve the purpose and all other information required under the GEM Listing Rules.

(5) *Maximum entitlement of each Participant*

The total number of Shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding Options) under the Share Option Scheme or any other share option schemes of our Company in any 12-month period up to date of grant must not exceed 1% of the Shares in issue. Any further grant which would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue must be separately approved by our Shareholders in general meeting with such Participant and his close associates (or his associates if the Participant is a connected person) abstaining from voting, and the number and terms (including the Subscription Price) of Options to be granted to such Participant must be fixed before the Shareholders' approval. In such event, our Company must send a circular to the Shareholders containing the identity of the Participant, the number and terms of Options to be granted (and Options previously granted to such person) and all other information required under the GEM Listing Rules.

(6) *Grant of Options to connected persons*

- (i) Any grant of an Option to a Director, chief executive or substantial shareholder of our Company (or any of their respective associates) must be approved by our independent non-executive Directors (excluding any independent non-executive Director who or whose associate is the proposed grantee of the Option).
- (ii) Where any grant of Options to a substantial shareholder or an independent non-executive Director (or any of their respective associates) would result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:
  - (a) representing in aggregate over 0.1% of the Shares in issue; and

- (b) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such further grant of Options must be approved by our Shareholders in general meeting of our Company, with voting to be taken by way of poll. Our Company must send a circular to our Shareholders containing all information as required under the GEM Listing Rules in this regard. The proposed grantees, their respective associates and all core connected persons of our Company must abstain from voting at such general meeting (except where any proposed grantee, associate of a proposed grantee or connected person may vote against the proposed grant provided his intention to do so has been stated in the circular). Any change in the terms of an Option granted to a substantial shareholder of our Company or an independent non- executive Director or any of their respective associates must be approved by our Shareholders in the aforesaid manner.

*(7) Restriction on the timing of grant of Options*

An offer for the grant of Options may not be made after inside information has come to our Company's knowledge until such inside information has been announced pursuant to the requirements of the GEM Listing Rules.

*(8) Timing of exercise of Option*

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

*(9) Administration of exercise of Option*

- (i) An Option may be exercised in whole or in part in the manner by the Grantee giving notice in writing to our Company in such form as the Board may from time to time determine stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate Subscription Price of the Shares in respect of which the notice is given together with the reasonable administration fee specified by our Company from time to time. Within 28 days after receipt of the notice and the remittance, our Company shall allot and issue the relevant Shares, credited as fully paid, and a share certificate for the relevant Shares so allotted to the Grantee.
- (ii) A Grantee shall ensure that any exercise of his Option under paragraph (9) is valid and complies with all laws, legislations and regulations to which he is subject. Our Directors may, as a condition precedent to allotting Shares upon an exercise of an Option, require the relevant Grantee to produce such evidence as they may reasonably require for such purpose.

*(10) Rights are personal to Grantee*

An Option shall be personal to the Grantee. Except for the transmission of an Option on the death of a Grantee to his/her legal personal representative(s), the Option shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose or create any interest in favour of any third party over or in relation to any Option (where the Grantee is a company, any change of its major shareholder or any substantial change in its management will be deemed to be a sale or transfer of interest as aforesaid, if so determined by our Directors at their sole discretion). Any breach of the foregoing by a Grantee shall entitle our Company to cancel, revoke or terminate any Option granted to such Grantee to the extent not already exercised.

*(11) Performance targets*

The Board may at its absolute discretion determine and state in the Offer for the grant of Option to a Grantee that a performance target must be achieved before any Option granted under the Share Option Scheme can be exercised.

*(12) Rights on death*

In the event that the Grantee (being an individual) dies before exercising the Option in full, his/her legal personal representative(s) may exercise the Option up to the Grantee's entitlement (to the extent which has become exercisable and not already exercised) within the period of 12 months following his/her death PROVIDED THAT where any of the events set out in paragraphs (15) and (16) occurs prior to his/her death or within such 12-month period following his/her death, then his/her legal personal representative(s) may so exercise the Option within such of the various periods respectively set out in such paragraphs instead of the period referred to in this paragraph (12) and provided further that if within a period of three years prior to the Grantee's death, the Grantee had committed any of the acts as specified in paragraph (23)(iv) below which would have entitled our Company to terminate his/her employment prior to his/her death, the Board may at any time forthwith terminate the Option of the Grantee (to the extent not already exercised) by written notice to his/her legal personal representatives and the Option (to the extent not already exercised) shall lapse on the date of the relevant Board resolution.

*(13) Rights on ceasing employment*

In the event that the Grantee is an employee of our Group when an Offer is made to him/her and he/she subsequently ceases to be an employee of our Group for any reason other than his/her death or the termination of his/her employment on one or more of the grounds specified in paragraph (23)(iv) below, the Option (to the extent not already exercised) shall lapse on the expiry of three months after the date of cessation of such employment (which date will be the last actual working day on which the Grantee was physically at work with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not).



*(14) Rights on dismissal*

In the event that the Grantee is an employee of our Group when an Offer is made to him/her and he/she subsequently ceases to be an employee by reason of a termination of his/her employment on one or more of the grounds specified in paragraph (23)(iv) and the Grantee has exercised the Option in whole or in part pursuant to paragraph (9), but Shares have not been allotted to him/her, the Grantee shall, unless the Board determines otherwise, be deemed not to have so exercised such Option and our Company shall return to the Grantee the amount of the Subscription Price for the Shares in respect of the purported exercise of such Option.

*(15) Rights on winding-up*

In the event a general meeting is convened for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, each Grantee shall be entitled to exercise all or any of his/her Options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company by giving notice in writing to our Company in accordance with the terms of the Share Option Scheme, accompanied by a remittance for the full amount of the aggregate Subscription Price of the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid.

*(16) Rights on a general offer, a compromise or arrangement*

In the event of a general or partial offer (whether by way of takeover offer or share repurchase offer or scheme of arrangement or otherwise in like manner) being made to all the Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/or any person acting in association or concert with the offeror) our Company shall use its best endeavours to procure that an appropriate offer is extended to all Grantees (on comparable terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the Options granted to them, as Shareholders). If such offer becoming or being declared unconditional, a Grantee shall, notwithstanding any terms on which his/her Option was granted, be entitled to exercise the Option in full (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

In the event of a compromise or arrangement between our Company and our Shareholders or its creditors being proposed in connection with a scheme for the reconstruction of our Company or its merger or consolidation with any other company or companies pursuant to the Companies Law, our Company shall give notice thereof to all the Grantees on the same day as it gives notice of the meeting to our Shareholders or its creditors to consider such a compromise or arrangement and the Options (to the extent not already exercised) shall become exercisable in whole or in part on such date until the earlier of (i) two months after that date or (ii) at any time not later than two business days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement (the “**Suspension Date**”), by giving notice in

writing to our Company in accordance with paragraph (9) above, accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the business day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the Grantee credited as fully paid. With effect from the Suspension Date, the rights of all Grantees to exercise their respective Options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all Options shall, to the extent that they have not been exercised, lapse and terminated. The Board shall endeavour to procure that the Shares issued as a result of the exercise of Options under this paragraph (16) shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of Grantees to exercise their respective Options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of our officers for any loss or damage sustained by any Grantee as a result of such proposal.

*(17) Adjustment to the Subscription Price*

- (i) In the event of any alteration in the capital structure of our Company whilst any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, open offer, consolidation or subdivision of shares of our Company, such corresponding adjustments (if any) shall be made in:
  - (a) the number of Shares subject to the Options so far as unexercised; and/or
  - (b) the Subscription Prices of any unexercised Options,

as the auditors shall certify in writing or the financial adviser shall confirm in writing (as the case may be) to the Board to be in their opinion fair and reasonable and in compliance with the relevant provisions of the GEM Listing Rules (or any guideline or supplementary guidance as may be issued by the Stock Exchange from time to time) (no such certification or confirmation is required in case of adjustment made on a capitalisation issue), provided that the overriding principle is that no adjustments should be made to the advantage of the Grantee or that would increase the intrinsic value of any Option.

For avoidance of doubt, (aa) an issue of any securities of our Company for cash or as consideration in respect of a transaction; and (bb) an issue of any securities of our Company under the authority of a general mandate or specific mandate granted to the Board by our Shareholders, will not be regarded as circumstances requiring adjustment under this paragraph (17)(i).

- (ii) Any adjustment under paragraph (17)(i) will be made, to the extent practicable, in accordance with the following:
- (a) any such adjustment shall be made on the basis that the proportion of the issued share capital of our Company to which a Grantee is entitled after such adjustment shall remain the same as that to which he was entitled before such adjustment;
  - (b) no such adjustment shall be made the effect of which would be to enable any Share to be issued at less than its nominal value, or to increase the proportion of the issued share capital of our Company for which any Grantee would have been entitled to subscribe had he exercised all the Options held by him immediately prior to such adjustments;
  - (c) except where the adjustment is made on a capitalisation issue, any adjustment shall satisfy the requirements of the Note to Rule 23.03 (13) of the GEM Listing Rules and the relevant guidance issued by the Stock Exchange and any future relevant guidance and interpretation of the GEM Listing Rules in this respect by the Stock Exchange; and
  - (d) the auditors or financial adviser selected by the Board (as appropriate) must confirm to the Board in writing that the adjustment is in their opinion fair and reasonable and in compliance with the relevant provisions of the GEM Listing Rules (or any guideline or supplementary guidance as may be issued by the Stock Exchange from time to time) (no such confirmation is required in case of adjustment made on a capitalisation issue).

*(18) Ranking of Shares*

The Shares to be allotted and issued upon the exercise of an Option will be subject to all the provisions of the Memorandum and the Articles of Association for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that the Shares allotted and issued upon the exercise of any Option shall not carry any voting rights until the name of the Grantee has been duly entered on the register of members of our Company as the holder thereof.

*(19) Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of ten years commencing on the Adoption Date.

*(20) Restrictions on the time of the Offer*

No Offer may be made after inside information has come to our Company's knowledge until such inside information has been announced in accordance with the requirements of the GEM Listing Rules. No Option may be granted during the period commencing one month immediately before the earlier of:

- (i) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for approving our Company's annual, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules) results; and
- (ii) the last day on which our Company shall announce its results for any year or half-year under the GEM Listing Rules, or quarterly or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement.

*(21) Cancellation of Options*

Any cancellation of Options granted but not exercised may be effected on such terms as may be agreed with the relevant Grantee, as the Board may in its absolute discretion see fit and in a manner that complies with all applicable legal requirements for such cancellation. Where our Company cancels Options and issues new ones to the same Grantee, the issue of such new Options may only be made under the Share Option Scheme with available unissued Options (excluding the cancelled Options) and in compliance with the terms of the Share Option Scheme, in particular within the limit approved by the Shareholders and, subject to the maximum number of Shares available for subscription stipulated under paragraph (4).

*(22) Termination of the Share Option Scheme*

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered but Options granted prior to such termination shall continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme.

*(23) Lapse of Option*

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of any of the periods referred to in paragraphs (12), (13) and (16);
- (iii) subject to paragraph (15), the date of the commencement of the winding-up of our Company;

- (iv) in the event that the Grantee is an employee of our Group when an Offer is made to him/her and he/she subsequently ceases to be an employee of our Group on any one or more of the grounds that he/she has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his/her creditors generally, or has been convicted of any criminal offence involving his/her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his/her employment at common law or pursuant to any applicable laws or under the Grantee's service contract with our Group, the date of cessation of his employment with our Group;
- (v) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his/her creditors generally by the Grantee, or conviction of the Grantee of any criminal offence involving his integrity or honesty;
- (vi) the date on which the Board exercises our Company's right to cancel, revoke or terminate the Option on the ground that the Grantee commits a breach of paragraph (10) in respect of that or any other Option; or
- (vii) subject to the compromise or arrangement as referred to in paragraph (16) becoming effective, the date on which such compromise or arrangement becomes effective.

*(24) Disclosure in annual and interim reports*

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of Options, date of grant, Subscription Price, Option Period, vesting periods and (if appropriate) a valuation of Options granted during the financial year/period in the annual/interim reports in accordance with the GEM Listing Rules in force from time to time.

*(25) Present status of the Share Option Scheme*

- (i) Application to Stock Exchange for the grant of Options

As at the date of this prospectus, no Option has been granted or agreed to be granted under the Share Option Scheme. Application has been made to the Stock Exchange for the listing and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the Options which may be granted under the Share Option Scheme.

## (ii) Value of Options

Our Directors consider it inappropriate to disclose the value of Options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no Options have been granted, certain variables are not available for calculating the value of Options. Our Directors believe that any calculation of the value of Options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

(26) *Alteration of the Share Option Scheme*

(i) The provisions of the Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the Share Option Scheme as to:

- (a) the definitions of “Grantee”, “Option Period” and “Participant”;
- (b) the provisions of the above paragraphs on any change to the authority of the Board and scheme administrators in relation to the terms of the Share Option Scheme; and
- (c) all such other matters set out in Rule 23.03 of the GEM Listing Rules,

shall not be altered to the advantage of the Participants except with the prior approval of the Shareholders in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the affected Grantees as would be required of the Shareholders under the Articles for the time being for a variation of the rights attached to the Shares.

(ii) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(iii) Notwithstanding anything to the contrary contained under paragraph (26)(i) and (26)(ii), the Board may at any time alter or modify the Scheme in any way to the extent necessary to cause the Scheme to comply with any statutory provisions or the regulations of any regulatory or other relevant authority. Any amendment to any terms of the Scheme or the Options granted shall comply with the relevant requirements of Chapter 23 of the GEM Listing Rules.

**2. Tax and other indemnities**

Our Controlling Shareholders have entered into the Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) to provide indemnities on a joint and several basis in respect of any liabilities and penalties which may arise as a result of taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which any member of our Group may be subject and payable and ongoing and potential litigations of our Group and any non-compliances with the applicable laws, rules or regulations of our Group on or before the date when the Share Offer becomes unconditional. Further details of the Deed of Indemnity are set out in the paragraphs headed “E. Other Information — 1. Estate duty, tax and other indemnity” in Appendix IV to this prospectus.

**3. Litigation**

As at the Latest Practicable Date, save as disclosed in this prospectus, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

**4. Sole Sponsor**

The Sole Sponsor has made an application on our behalf to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued upon the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme).

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 6A.07 of the GEM Listing Rules.

The Sole Sponsor’s fees are HK\$3.8 million and are payable by our Company.

**5. Preliminary expenses**

The preliminary expenses incurred and paid by our Company were approximately US\$4,300.

**6. Promoter**

Our Company has no promoter for the purposes of the GEM Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Share Offer and the related transactions described in this prospectus.

## 7. Taxation of holders of Shares

### (a) Hong Kong

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. Our Directors have been advised that no material liability for estate duty under the laws of Hong Kong would be likely to fall upon any member of our Group.

### (b) Cayman Islands

Under the present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of Shares.

### (c) Consultation with professional advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

## 8. Qualification of experts

The following are the qualifications of the experts who have given their opinion or advice which are contained in, or referred to in this prospectus:

<b>Name</b>	<b>Qualifications</b>
Huabang Corporate Finance Limited	a licensed corporation under the SFO to engage in type 6 (advising on corporate finance) of regulated activities
Ernst & Young	Certified Public Accountants
King & Wood Mallesons	PRC legal advisers
Appleby	Cayman Islands attorneys-at-law
China Insights Consultancy Limited	Industry consultant
Hogan Lovells	International Sanctions Law advisers



**9. Consents of experts**

Each of the experts named in paragraph 8 of this Appendix has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

**10. Interests of experts in our Company**

None of the persons named in paragraph 8 of this Appendix is interested beneficially or otherwise in any Shares or shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares or securities in any member of our Group.

**11. Binding effect**

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**12. Miscellaneous**

- (a) Save as disclosed in this prospectus:
  - (i) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) within the 24 months immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
  - (iv) no commission has been paid or is payable (except commission to sub-underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries;
- (b) there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries;
- (c) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 May 2017 (being the date to which the latest audited combined financial information of our Group were made up);

- (d) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 24 months preceding the date of this prospectus;
- (e) the principal register of members of our Company will be maintained in the Cayman Islands by Estera Trust (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company's share registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS;
- (f) save as disclosed in this prospectus, none of the equity and debt securities of the Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (g) our Directors have been advised that under the Cayman Companies Law the use of a Chinese name by our Company does not contravene the Cayman Companies Law; and
- (h) our Company has no outstanding convertible debt securities or debentures.

### 13. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

## E. OTHER INFORMATION

### 1. Estate duty, tax and other indemnity

All of our Controlling Shareholders (each a “**Covenantor**”, collectively the “**Covenantors**”) have entered into the Deed of Indemnity in favour of our Company (for itself and as trustee for each member of our Group) pursuant to which the Covenantors have covenanted, agreed and undertaken to fully indemnify and keep our Company and each other member of our Group fully indemnified at all times from and against any direct or indirect diminution in or depletion in or reduction in the value of the assets, or increase in the liabilities, or loss, modification, cancellation, reduction or deprivation of any relief, of any member of our Group as a direct or indirect result or consequence of or in connection with, in relation to or arising out of any taxation claim relating to:

- (i) any duty which is or hereafter becomes payable by any member of our Group under or by virtue of the provision of section 35 and/or section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) (the “**Estate Duty Ordinance**”) or legislation similar thereto in Hong Kong or any part of the world by reason of the death of any person at any time and by reason of the transfer of property to any member of our Group or any of such assets being deemed for the purpose of the Estate Duty Ordinance or legislation similar thereto in any part of the world to be included in the property passing on his/her death by

reason of that person making or having made a relevant transfer to any member of our Group or to any other person, entity or company on or before the date on which the conditions under the Deed of Indemnity are fulfilled (or where applicable, waived) in accordance with the terms of the Deed of Indemnity (the “**Fulfilment Date**”);

- (ii) any amount recovered against any member of our Group under the provisions of section 43(7) of the Estate Duty Ordinance or legislation similar thereto in Hong Kong or any part of the world in respect of any duty payable under section 43(1) or 43(6) of the Estate Duty Ordinance or legislation similar thereto in Hong Kong or any part of the world by reason of the death of any person and by reason of the assets of any member of our Group or any of such assets being deemed for the purpose of the Estate Duty Ordinance or legislation similar thereto in Hong Kong or any part of the world to be included in the property passing on his/her death by reason of that person making or having made a relevant transfer to any member of our Group or to any other person, entity or company on or before the Fulfilment Date;
- (iii) any amount of duty which any member of our Group is obliged to pay by virtue of section 43(1)(c) of the Estate Duty Ordinance or legislation similar thereto in Hong Kong or any part of the world in respect of the death of any person in any case where the assets of another company or any of them are deemed for the purpose of the Estate Duty Ordinance or legislation similar thereto in Hong Kong or any part of the world to be included in the property passing on that person’s death as a result of that person making or having made a relevant transfer to that other company and by reason of any member of our Group or any other person, entity or company having received any distributed assets of that other company on their distribution within the meaning of the Estate Duty Ordinance or legislation similar thereto in Hong Kong or any part of the world on or before the Fulfilment Date, but only to the extent to which any member of our Group is unable to recover any amount or amounts in respect of that duty from any other person under the provisions of section 43(7)(a) of the Estate Duty Ordinance or legislation similar thereto in Hong Kong or any part of the world;
- (iv) any penalty imposed on our Group or any member of our Group under section 42 of the Estate Duty Ordinance by reason of the relevant company defaulting on any obligation to give information to the Commissioner of Inland Revenue under section 42(1) of the Estate Duty Ordinance, provided that such obligation arises on or before the Fulfilment Date;
- (v) any taxation falling on any member of our Group in respect of or by reference to any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the Fulfilment Date, or any acts, omissions, transactions, matters, things or events entered into or occurring or deemed to enter into or occur on or before such date whether alone or in conjunction with any other events, acts or circumstances wherever, however or whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company, including any taxation resulting from the receipt by any member of our Group of any amounts paid by the Covenantors under this Deed; and

- (vi) all reasonable costs (including all legal costs), expenses, interests, penalties or other liabilities which any member of our Group may make, suffer or incur in connection with:
  - (a) the investigation, assessment or contesting of any taxation claim under the Deed of Indemnity;
  - (b) the settlement of any taxation claim under the Deed of Indemnity;
  - (c) any legal proceedings in which any member of our Group claims in relation to any taxation claim under or in respect of the Deed of Indemnity and in which judgment, award or decision is given for any member of our Group; or
  - (d) the enforcement of any such settlement or judgment referred to in (b) and (c) above.

The indemnity given above does not cover any taxation claim to the extent that:

- (i) specific provision, reserve or allowance has been made for such taxation or taxation claim in the audited combined financial statements of our Company or any member of our Group for the Track Record Period; or
- (ii) the taxation arises or is incurred as a result of retrospective change in law or a retrospective increase in tax rates coming into force after the Fulfilment Date; and
- (iii) the taxation arises in the ordinary course of business of our Company and/or other member of our Group after 31 May 2017 up to and including the Fulfilment Date.

The indemnity given above shall cover any taxation claim which falls on our Company or any member of our Group if such taxation arises due to some act or omission of, or transaction voluntarily effected by, our Company or any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) not in their ordinary course of business on or before the Fulfilment Date.

The Covenantors have further covenanted, agreed and undertaken to fully indemnify and at all times keep our Company and the relevant member of our Group fully indemnified on demand against all penalties, claims, actions, demands, proceedings, litigations (without limitation to any legal costs), judgments, losses, liabilities, damages, costs, administrative or other charges, fees, expenses and fines of whatever nature which may be imposed on or suffered by or incurred by our Company and/or other member of our Group as a result of directly or indirectly or in connection with:

- (i) any non-compliance with the applicable laws, rules or regulations by our Company and/or any of our Group arising out of and in connection to the failure of Guangzhou Xinhua to make contributions to the social security fund for some employees under the PRC laws during the Track Record Period;

- (ii) any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings instituted by or against our Company and/or any member of our Group in relation to events occurred on or before the Fulfilment Date; and
- (iii) any non-compliance with the applicable laws, rules or regulations by our Company and/or any member of our Group on or before the Fulfilment Date except that provision, reserve or allowance has been made for such liabilities in the audited combined financial statements of our Company or any member of our Group for the Track Record Period.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE, YELLOW, and GREEN** Application Forms;
- (b) the written consents referred to in the section headed “Statutory and General Information — D. Other Information — 9. Consents of experts” in Appendix IV to this prospectus; and
- (c) a copy of each of the material contracts referred to in the section headed “Statutory and General Information — B. Information about our Business — 1. Summary of material contracts” in Appendix IV to this prospectus.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Benny Pang & Co. at 27th Floor, 100 QRC, 100 Queen’s Road Central, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and Articles of Association;
- (b) the accountants’ report of our Group prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the audited combined financial statements of our Group for each of the two years ended 31 December 2016 and the five months ended 31 May 2017;
- (d) the report from Ernst & Young in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the PRC legal opinions from King & Wood Mallesons, our PRC legal advisers in respect of our Group’s business operations and property interest in the PRC;
- (f) the memorandum from Hogan Lovells, our International Sanctions Law advisers in respect of our Group’s business with countries with which International Sanctions apply;
- (g) the letter of advice from Appleby, our Cayman Islands legal advisers, summarising the constitution of our Company and certain aspects of Cayman company law referred to in the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III to this prospectus;
- (h) the Cayman Companies Law;
- (i) the industry report prepared by China Insights Consultancy Limited;
- (j) the material contracts referred to in the section headed “Statutory and General Information — B. Information about our Business — 1. Summary of material contracts” in Appendix IV to this prospectus;

- (k) the written consents referred to in the section headed “Statutory and General Information — D. Other Information — 9. Consents of experts” in Appendix IV to this prospectus;
- (l) the service contracts and letters of appointment with each of our Directors referred to in the section headed “Statutory and General Information — C. Further Information about Directors, chief executive and substantial Shareholders — (b) Particulars of service contracts and letters of appointment” in Appendix IV to this prospectus; and
- (m) the rules of the Share Option Scheme.

Shen You Holdings Limited  
申酉控股有限公司